सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1994

No. 3 of 1995

UNION GOVERNMENT - COMMERCIAL AUDIT OBSERVATIONS

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PREFACE

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

2. The statutes governing some corporations and authorities require their accounts to be audited by the CAG and reports given by him. In respect of International Airports Authority of India, National Highways Authority of India, National Airports Authority, Inland Waterways Authority of India, Damodar Valley Corporation and Delhi Transport Corporation, the CAG is the sole auditor under the relevant statutes. Air India, Indian Airlines and ONGC, where the CAG was the sole auditor, were Statutory Corporations till February 1994/January 1994. They have since become Government Companies. In respect of Central Warehousing Corporation and Food Corporation of India, the CAG has the right to conduct audit independently of the audit conducted by the Chartered Accountants appointed under the statutes governing the two Corporations.

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

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

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

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

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

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

6. The cases mentioned in this Report are among those which came to notice in the course of audit during 1992-93 and 1993-94 and the early part of 1994-95 as well as those which came to notice in earlier years but could not be covered in previous Reports.

OVERVIEW

INFRUCTUOUS/ EXTRA EXPENDITURE

IPCL spent Rs.2.51 crores on a temporary railway siding which was constructed when the need for it was over.

(Paragraph 2.6)

Failure of Fertilizer Corporation of India to take a complete view of the situation before importing Waste Heat Boiler Plant resulted in blocking of Rs. 4.16 crores for over six years, in boiler material lying unutilised.

(Paragraph 2.8)

Delay by Eastern Coalfields in cancelling an order resulted in Rs.7.74 crores being spent on import in September 1992 of steel cord belting for which a use is still to be identified.

(Paragraph 4.5)

Neyveli Lignite Corporation's failure to issue a proper notice for termination of contract resulted in extra expenditure of Rs.2.74 crores on procurement of transformers from another source.

(Paragraph 4.6)

Despite allocation of sufficient funds, MMTC delayed ordering the required quantity of Muriate of Potash from German suppliers which resulted in avoidable additional expenditure of Rs.3.83 crores.

(Paragraph 5.8)

Use of expensive HSD oil instead of LSHS oil in Diesel Generating Sets from 1990-91 to 1992-93 by Hindustan Zinc Limited resulted in avoidable expenditure of Rs.3.92 crores.

(Paragraph 13.2)

Over estimation of soil strength while setting up an LPG storage facility resulted in an avoidable expenditure of Rs.4.67 crores to Bharat Petroleum Corporation .

(Paragraph 14.1)

Due to delay in commissioning and poor output of N2/CO2 plant, Lubrizol India had to incur extra expenditure of Rs.2.37 crores for the period from 1990-91 to 1993-94.

(Paragraph 14.15)

Delay in adjusting the administered price when import of lube base oil was decanalised and liberalised resulted in undue benefit of Rs.12.74 crores to minor oil companies/private parties.

(Paragraph 14.16)

Non-revision of the administered price of indigenously produced naptha at the time of decanalisation of its import resulted in export of the product at distress prices by one PSU and import of naphtha at a higher price by another PSU resulting in extra expenditure of Rs.11.52 crores.

(Paragraph 14.17)

Due to non-replacement of filters of a gas turbine when due and use of filters without checking their strength, ONGC had to incur extra expenditure of Rs.22.61 crores.

(Paragraph 14.21)

Due to not awarding a contract for well platforms on turnkey basis to the lowest tenderer in time and finally awarding the contract to the second lowest tenderer resulted in an avoidable expenditure of US $ 2.002 million to ONGC .

(Paragraph 14.23)

Deployment of a drilling rig before obtaining the requisite clearance under the Forest (Conservation) Act, 1980, resulted in an infructuous expenditure of Rs.3 crores and a penalty of Rs.1 crore for ONGC.

(Paragraph 14.25)

ONGC awarded a contract for procurement of casing pipes for Rs.4.78 crores more than the lowest bid to an indigenous supplier by granting undue price preference without ascertaining the actual domestic value addition involved.

(Paragraph 14.27)

Procurement of casing pipes in excess of requirements coupled with improper storage resulted in avoidable expenditure of Rs.5 crores to ONGC.

(Paragraph 14.31)

The rejection of bids of pre-qualified contractors, on the basis of unscientific and unrealistic rates, by Konkan Railway Corporation, resulted in an avoidable expenditure of Rs.3.04 crores.

(Paragraph 16.5)

An sum of Rs.2.78 crores, out of the investment of Rs.4.38 crores on the Lime Dust Injection Plant in Durgapur Steel Plant became infructuous due to delay in completion.

(Paragraph 17.7)

RSP/SAIL used 42,275 tonnes of nut coke instead of pearl coke in soaking pits resulting in an extra expenditure of Rs.3.55 crores.

(Paragraph 17.9)

An investment of Rs.2.40 crores remained blocked with consequential loss of interest of Rs.1.92 crores because an On-line Ultrasonic Rail Testing Machine of SAIL was not commissioned.

(Paragraph 17.11)

Delay in establishing a Letter of Authority by Bhilai Steel Plant resulted in infructuous purchase of drawings for Rs.5.63 crores; in addition, material manufactured for Rs.0.42 crore by the Plant also proved infructuous.

(Paragraph 17.12)

SAIL despatched 121068 tonnes of imported coking coal from Vizag to Bokaro Steel Plant; if this quanitity had been sent to Rourkela Steel Plant instead, and Bokaro Steel Plant's requirement met from Haldia Port, SAIL would have saved Rs.2.35 crores in freight .

(Paragraph 17.17)

Rashtriya Pariyojna Nirman Nigam's delay in disposal/removal of machines and equipment rendered surplus on completion of works in Iraq led to a loss of Rs.44.59 lakhs in the disposal of 84 machines and infructuous expenditure of Rs.4.98 crores on the import of 56 machines into India.

(Paragraph 21.1)

In addition, 22 PSUs had made purchases(including imports) for Rs.31.75 crores of machines, equipment, spares, technology etc. which were not required or were not as per specifications or became redundant due to

Due to delay in fulfilling an export order and then changing the route for delivery of the material, NALCO failed to recover Rs.94.50 lakhs.

(Paragraph 13.5)

Due to non-inclusion of a specific clause regarding foreign exchange fluctuations in an agreement for import of Raw Petroleum Coke, IOC could not recover Rs.83.52 lakhs from the ultimate buyer.

(Paragraph 14.12)

Delay in setting up a Kerosene Recovery Plant by ONGC led to continued import of Kerosene and export of naptha at a loss of Rs.28 crores.

(Paragraph 14.28)

Had the retubing of Condensers in Turbo Alternator No.1 & 2 been done by IISCO in time, the saving in consumption of steam from April 1989 to November 1993 would have led to a cost saving of Rs.1.77 crores.

(Paragraph 17.2)

Although OSEB agreed to take power from RSP/SAIL, at the rates agreed upon by the Government of Orissa for import of power from NALCO, RSP failed to ascertain the prevailing rates from NALCO from time to time and revise their rates accordingly - this resulted in a loss of Rs.1.54 crores to RSP.

(Paragraph 17.16)

Undertaking of a dredging work by Dredging Corporation of India without proper pre-dredging surveys and planning resulted in a loss of Rs.4.42 crores to the Company. Failure to conduct pre-dredging surveys and engagement of unsuitable dredgers caused a loss of Rs.1.76 crores in another case.

(Paragraphs 18.2. & 18.3)

In addition, 12 PSUs suffered revenue losses amounting to Rs.3.65 crores on account of delays in processing of orders, preferring of claims and revision of rates, differences in price of material supplied, failure to include escalation clause, etc.

(Paragraphs 4.8, 5.1, 5.4,7.3, 7.7, 7.8, 7.9, 7.10, 8.1, 8.2, 12.3,12.12, 12.18, 12.19 and 17.3)

LOSS OF INSURANCE PREMIUM

Incorrect application of tariff provisions, undercharge of premium and excess payment against an insurance policy resulted in loss of Rs.137.22 lakhs in the four Insurance Companies.

(Paragraphs 9.1 to 9.13)

LOSS MAKING ORDERS

Projects and Development India suffered a loss of Rs.1.10 crores in execution of a work for NTPC due to delay in completion and acceptance of unworkable rates.

(Paragraph 2.16)

Due to inadequate quality control measures taken by Hindustan Cables, the Company suffered a loss of Rs.1.99 crores on the supply of copper coated steel wires.

(Paragraph 12.9)

delay in ordering or delay in utilisation. Cases of avoidable payment of customs duty, sales tax and excise duty adding up to Rs.6.36 crores were also noticed.

(Paragraphs 2.7, 2.11, 2.13,2.14,2.17,4.3,4.4, 4.7,5.7,7.1,7.6,11.1,12.1,12.7,12.8,12.14,12.15, 13.3,14.4,14.5,14.20,14.22,14.24,14.26,14.30,15.1, 15.2,16.6,17.4,17.5,17.8,17.10,17.13,17.14,17.15, 17.18 and 19.1)

LOSS OF REVENUE

Inaccurate measurement of the premises given on lease to a private company, and non-revision of rent led to Bengal Chemicals and Pharmaceuticals suffering a loss of income of Rs.72.73 lakhs from April 1983 to March 1994.

(Paragraph 2.1)

Delay in construction of a hotel on a leased plot resulted in loss of revenue of Rs.1.53 crores to International Airports Authority of India.

(Paragraph 3.2)

National Airports Authority failed to revise the rate of Route Navigation Facilities charges at an Airport resulting in loss of Rs.1.49 crores to the Authority.

(Paragraph 3.3)

BCCL lost a revenue of Rs.52.79 lakhs by undertaking construction work on its stock of middlings as the middlings got mixed with mud and construction debris.

(Paragraph 4.2)

Delay at various stages in declaration of coal as long flame coal resulted in loss of revenue of Rs.11.89 crores to 2 coal companies viz, South Eastern Coalfields and Western Coalfields.

(Paragraph 4.9)

MMTC failed to safeguard itself against non-realisation of dues of Rs.15.77 crores (US $ 5.27 million) in an export transaction. In another transaction when wheat was exported, the Company lost Rs.1.12 crores because of inadequate fumigation.

(Paragraphs 5.2 & 5.3)

PEC's failure to pay heed to the risk indicators in an export deal led to a loss of Rs.93.85 lakhs.

(Paragraph 5.10)

Billing of a set of 100 arrestors as one arrestor caused ITI a loss of Rs.1.67 crores on belated recovery of dues.

(Paragraph 6.1)

Due to raising of invoices for goods under production and again on despatch, BHEL paid Sales Tax twice resulting in loss of interest of Rs.60.54 lakhs.

(Paragraph 12.5)

HEC lost Rs.0.93 crore due to premature failure of ingot moulds supplied to BSP/SAIL.

(Paragraph 12.13)

UNDUE BENEFITS TO EMPLOYEES

In contravention of the instructions of Department of Public Enterprises, National Seeds Corporation made an irregular payment of Rs.31.62 lakhs to its employees who opted for voluntary retirement from October 1992 to November 1993.

(Paragraph 1.1)

For non-compliance with the provisions of the Income Tax Act while deducting tax at source from its pilots, Air India had to incur an avoidable expenditure of Rs.4.69 crores by way of tax not deducted (Rs.3.48 crores) and interest (Rs.1.21 crores) for delayed deposit of tax.

(Paragraph 3.1)

In contravention of the instructions of the Ministry of Commerce, STC made excess payment of Rs.75.23 lakhs as HRA between January 1987 and December 1994 to its employees who had failed to produce rent receipts.

(paragraph 5.9)

PEC continued adhoc payment of productivity-linked reward to its employees since 1987-88 pending ex-post facto approval. Ex-post facto approval was refused by DPE and a payment of Rs.8.81 lakhs made under the scheme became irregular. PEC also paid ex-gratia of Rs.21.78 lakhs irregularly for the years 1989-90 to 1993-94 to its employees who were otherwise not eligible for bonus.

(Paragraph 5.11)

Hindustan Shipyard made irregular payment of Rs.9.19 lakhs to its employees who opted for Voluntary Retirement Scheme in contravention of DPE's guidelines.

(Paragraph 18.5)

NTC(WBABO) made an irregular payment of Rs.6.20 lakhs to 107 employees as pay & allowances for the period from January 1986 to December 1993 due to wrong fixation of pay.

(Paragraph 19.2)

FAILURE TO INSURE EQUIPMENT

By not insuring the Electrostatic Precipitator of its captive power plant, Hindustan Fertilizer Corporation suffered a loss of Rs.2.80 crores when the equipment got damaged.

(Paragraph 2.15)

INJUDICIOUS PURCHASE OF LAND

ONGC , Fertilizer Corporation of India , IPCL, BALCO and IOC spent Rs.13.25 crores, Rs.1.21 crores, Rs.5.14 crores, Rs.1 crore and Rs.0.22 crore respectively on purchase of land without any immediate requirements resulting in blocking of funds.

(Paragraphs 2.4,2.5,2.10,13.1,14.9 & 14.18)

AVOIDABLE CHARGES FOR ELECTRICITY

In the absence of proper arrangements to draw power from Bihar State Electricity Board (BSEB) grid while running its captive power plant and also due to incorrect assessment of contract demand, Barauni Refinery of IOC had to make avoidable payment of energy charges of Rs.3.34 crores to BSEB.

(Paragraph 14.10)

EXTENSION OF FINANCIAL ASSISTANCE TO A SICK COMPANY

A loan of Rs.60 lakhs given to a sick PSU by Hindustan Organic Chemcials at a lower rate of interest when the Company itself was resorting to

cash credit facility was against the Company's financial interest and not related to its objectives.

(Paragraph 2.2)

INVESTMENT OF FUNDS

Due to delay in investment of funds amounting to Rs.550 crores, IRFC had to suffer a loss of interest of Rs.3.38 crores.

(Paragraph 16.1)

Out of Rs.200 crores deposited with CANFINA and Rs.30 crores with ABFSL in February 1992 by HUDCO, Rs.160 crores from CANFINA and Rs.24.50 crores from ABFSL are over due and yet to be recovered.

(Paragraph 20.1)

CHAPTER 1

MINISTRY OF AGRICULTURE

NATIONAL SEEDS CORPORATION LIMITED

1.1 Irregular payment under Voluntary Retirement Scheme

The Voluntary Retirement Scheme (VRS) formulated in October 1988 by the Bureau of Public Enterprises (BPE) provided for payment of notice pay for one/three months in accordance with the conditions of service of the employee. It was later clarified by Department of Public Enterprises in May 1992 that where management takes time to decide upon an application for VRS and allows the notice period to lapse or the employee draws full salary during notice period served by him, the notice period pay would not be admissible.

National Seeds Corporation, introduced the VRS in May,1992. In respect of 271 employees, who opted for VRS and in whose cases the notice period had expired, pay for notice period amounting to Rs.31.62 lakhs was paid by the Company between October,1992 and November,1993. This was in contravention of the instructions issued by the DPE in May, 1992.

The matter was reported to the Management and Ministry in May 1994.

In their reply in June 1994 the Management stated that the options given by the employees were in the form of willingness to proceed on voluntary retirement and not a notice because the acceptance or otherwise of the application was dependent on the decision of a committee appointed for the purpose.

The Ministry endorsed (July 1994) the reply of the Management. The reply is not tenable since the application forms prescribed by the Management and filled in by the employees were not in the form of willingness but a final irrevocable option for VRS. The payment of Rs.31.62 lakhs was, therefore, irregular.

CHAPTER 2

DEPARTMENT OF CHEMICALS AND PETRO-CHEMICALS

BENGAL CHEMCIAL AND PHARMACEUTICALS LIMITED

2.1 Loss of rent

A part of the premises of the Company at Bombay, measuring 5881 sq.ft. consisting of ground and two upper floors was let out to Company `A' for ten years from Ist March 1973,before the Company was nationalised on 1st April 1981. No fresh agreement was, however, made with Company `A' on the expiry of the old agreement in March 1983 and Company `A' continued to pay rent at the old rate of Rs.2 per sq.ft.per month upto 31st March 1990. Before finalisation of the new lease agreement, the actual built up area occupied by Company `A' was jointly measured and found to be 7753.33 sq.ft instead of 5881 sq.ft. Company `A' agreed to pay rent for 7753.33 sq.ft.at Rs.6 per sq.ft. per month for the period from Ist April, 1990 to 31st March 1993. The agreement was, however, finalised only in September, 1993 and rent at Rs.6 per sq.ft.per month was fixed for the period upto 31st March 1998.

Thus by continuance of the lease arrangement without proper measurement of the area occupied even after expiry of the lease agreement in March, 1983 the Company suffered a loss of rent of Rs.3.15 lakhs.

The first floor of the same premises measuring 1847 sq.ft. was let out to a Public Sector Undertaking- Projects and Development India Limited(PDIL) from 16th July 1980 at a rent of Rs.5 per sq.ft.per month.This rate was enhanced twice: to Rs.7.25 on 16th July 1983 and Rs.10 on 16th July 1986 . In May 1992, the Company renewed its lease agreement with PDIL when a rent of Rs.15 per sq.ft. per month was fixed for three years from Ist October 1991.Had the Company charged rent from Company `A' at the rates that it charged from PDIL, it would have earned an additional rent of Rs.69.58 lakhs during the period from 1st April 1983 to 31st March 1994.

Thus, owing to inaccurate measurement of the area occupied by Company `A' and charging of different rents from two tenants occupying parts of the same premises between April 1983 and March 1994,the Company had to suffer an avoidable loss of rent of Rs.72.73 lakhs.

The Management stated in May 1994 that inspite of strenous efforts made by the Company to increase the lease rent and resolve the issue, Company `A' did not extend cooperation and even avoided meetings with the Ministry. On the premise that even legal action would not yield any result enhancement in lease rent as proposed by Company `A' had to be agreed to by the Company.The Ministry endorsed (August 1994) the views of the Management.

HINDUSTAN ORGANIC CHEMICALS LIMITED

2.2 Loans given to a sick company

Smith Stanistreet Pharmaceuticals Limited (SSPL), a Government of India enterprise sought (March 1991) financial assistance of Rs.60 lakhs from Hindustan Organic Chemicals Limited (HOCL) to meet its raw and packing material needs. Though HOCL had its own financial constraints, in anticipation of the approval of its Board and the Ministry of Chemicals and Fertilisers it extended (14.3.1991) a temporary loan of Rs.15 lakhs to SSPL carrying interest at 16% per annum recoverable in three monthly instalments starting from June 1991.However, when HOCL approached the Ministry on 29.6.1991 for post facto approval of the loan of Rs.15 lakhs made to SSPL, the Ministry stated that SSPL was a sick unit and it was not clear on what basis the loan was advanced to them. The Ministry further directed that no loan should be paid to any company without prior approval of the Government. Meanwhile the Ministry on 15.5.1991, at the request of SSPL had conveyed its approval for a loan of Rs.60 lakhs from HOCL to SSPL. The stand taken by the Ministry in June 1991 was contradictory since in May 1991 the Ministry had itself conveyed approval for a loan of Rs.60 lakhs from HOCL to SSPL.

In September 1991 the Ministry directed HOCL to extend a loan of Rs.50 lakhs to SSPL in two instalments. Accordingly the amount was paid by HOCL to SSPL in two instalments on 17.9.1991 and 30.9.1991 without indicating the rate of interest and the terms of repayment. HOCL subsequently (14.10.1991) informed SSPL that the loan would carry interest at 19% per annum and the repayment should be within one year in equal quarterly instalments. The Ministry conveyed to HOCL in January 1992 the ex-post facto approval of the Government for the loan of Rs.65 lakhs to SSPL.

In March 1993 the Ministry requested HOCL to consider giving suitable relief for the revival of SSPL as the enterprise was referred to the Board of Industrial and Financial Reconstruction (BIFR). HOCL agreed to (i) reduce the rate of interest to 14% from 1992-93 (ii) a holiday on payment of interest for the years 1992-93 and 1993-94 (iii) a holiday on repayment of principal for five years i.e. upto 1997-98 and repayment in twenty monthly instalments thereafter. The total amount due from SSPL as on 31.3.1994 was Rs.89.18 lakhs including interest accrued amounting to Rs.24.18 lakhs.

In its explanation to Audit, HOCL stated (January 1994) that (i) the loan of Rs.65 lakhs was given to SSPL at the instance of the Ministry to help another public sector unit(ii) the relief package was agreed to because of the fact that the position of the Company would be that of an unsecured creditor in case SSPL were to be woundup.

The action of the Management in extending loans to SSPL was not justified because (i) HOCL itself was resorting to cash credits at higher rates of interest ranging from 16.5% to 21.25% for its day to day operations and by extending a loan to SSPL HOCL had acted against its own financial interest (ii) extension of financial support to sick public sector units was neither directly nor incidentally related to the attainment of the objectives of HOCL.

The matter was referred to the Ministry in March 1994; their reply has not been received (November 1994).

INDIAN DRUGS AND PHARMACEUTICALS LIMITED

2.3 Unproductive import of machinery

The Company undertook expansion of the capacity of its Potassium Penicillin Plant at Rishikesh from 400 MMU to 600 MMU at a cost of Rs.3.83 crores. In this connection, on the basis of offers received by the Chairman & Managing Director and General Manager during their visit to the USA in June 1988 orders were placed in October 1988 on 2 companies of USA for supply of 2 second-hand centrifuges at a cost of US $ 62,000. Further, an order for spares and accessories for these centrifuges was placed in December 1988 for US $ 1,79,625.70 on a third company of USA.

One centrifuge (costing Rs.9.35 lakhs including customs duty of Rs.4.04 lakhs) was installed in December 1990 but could not be put to use as it was fitted with an ordinary electric motor instead of a flame proof electric motor. This centrifuge could be put to regular use only in May 1993 after the procurement and fitting of a flame proof motor.

The other centrifuge valuing US $ 35,000 (Rs.5.54 lakhs) received in August, 1989 and spares and accessories valuing Rs.33.10 lakhs are lying in a bonded warehouse due to non-availability of funds for payment of customs duty. It was also noticed that the Customs authorities had valued the centrifuge at US $5,588 because of the Company's failure to furnish a chartered engineer's certificate resulting in an extra liability of customs duty of Rs.6.39 lakhs.

Thus, the Company failed to expand the installed capacity of Potassium Penicillin Plant. In the process it has blocked Rs.38.64 lakhs since August 1989 due to non clearance of machinery and equipment remaining idle. The matter was referred to the Management in April 1994 and to the Ministry in September 1994; their replies have not been received (December 1994).

INDIAN PETROCHEMICALS LIMITED

2.4 Injudicious purchase of land

The Company purchased in March 1983 a residential plot measuring 2.4 acres from New Okhla Industrial Development Authority (NOIDA) on lease for a period of 99 years at a cost of Rs. 47.68 lakhs for construction of dwelling units. Possession was taken by the Company in August 1983.

The Company had 116 employees (excluding U.P. Complex) at that time and according to the Bureau of Public Enterprises (BPE) guidelines, only 40 percent housing satisfaction level was required in Delhi. The Company already owned 9 dwelling units for its officers and had purchased 33 flats earlier for its employees. Besides 2 flats had also been taken on lease and 9 employees had been granted House Building Advance for construction of their own houses. Land for residential purpose was, therefore, not required at that time.

The terms and conditions of allotment (Clause 1 & 10) required the construction to be completed within 3 years of the date of allotment failing which allotment was liable to be cancelled. The Company obtained (March 1989) extension of time for construction upto March 1990 after paying a penalty of Rs.6.91 lakhs. To avoid cancellation of the allotment, the Company decided (April 1989) to construct only 6 flats and, accordingly, got the building plan sanctioned from NOIDA. The work of construction of flats was awarded (July 1989) to a contractor at an estimated cost of Rs.24.14 lakhs. Though the work was stated to have been completed by June 1993, the contractor had not given possession of the flats to the Company (October 1994) as there was a dispute regarding the quality of construction. The matter was stated (November 1994) to have been referred to arbitrators.

The Management stated in April 1993 that the decision to acquire land at NOIDA was taken at the insistence of the Ministry and the residential plot was acquired for meeting the long term requirements of their Regional Office at New Delhi. The construction of the houses was not started within the prescribed time

because the location of the plot was in a far off undeveloped corner of NOIDA without any infrastructural facilities such as roads, power, electricity, water, etc.

The reply of the Management is not tenable as the Ministry was only coordinating with NOIDA for purchase of land for those Public Sector Undertakings that required land and the Company need not have responded as they had no requirement. Further, before making the purchase the Management was aware of the terms and conditions of the allotment of land according to which the construction was to be completed within three years from the date of allotment and also that the land was located in an undeveloped corner of NOIDA without any infrastructural facilities.

The Ministry while admitting the facts stated (October 1993) that the Company had been advised "not to undertake such infructuous investments in future" and to consider disposing of the land which was found to be in excess of their requirement. In their subsequent reply (November 1994) the Ministry stated that for utilisation of the land, the Company proposes to draw up plans as soon as the fund flow position becomes a little more comfortable.

The purchase of the land without any requirement resulted in blocking of funds to the tune of Rs.47.68 lakhs excluding the penalty of Rs.6.91 lakhs. As the Company has been availing of a cash credit facility from State Bank of India at an interest rate of 16-1/2 per cent per annum, the blocking of funds resulted in avoidable payment of interest of Rs.87.86 lakhs for the period from April 1983 to October 1994.

2.5 Funds blocked in purchase of land

Indian Petrochemicals Corporation Limited (Company), in anticipation of future requirement of residential or office accommodation, bid (February, 1989) for three plots of land on lease in a public auction held by Maharashtra Housing and Area Development Authority (MHADA).Prior inspection of the plots before tendering the bid was not done to ensure the suitability of the plot for the intended purposes. The Company's bids for two plots, being the highest, were accepted by

MHADA and the Company deposited the lease premium of Rs.396.57 lakhs in March 1989 and May 1989. As these two plots were found unsuitable by the Company officials on subsequent inspection, MHADA at the request of the Company offered alternative plots in July 1990 and asked for an additional premium of Rs.69.72 lakhs which was paid in March 1991. MHADA handed over possession of the alternative plots of land to the Company in January 1992. However, the execution of the lease deed agreement and other formalities were yet to be completed (October 1994).

The amount of Rs.466.29 lakhs (Rs.396.57 lakhs for 65 months and Rs.69.72 lakhs for 44 months) remained blocked in an idle asset because there was no definite need for the plots at the time of their acquisition, failure to inspect the plots before bidding for them and delay in preparation and approval of utilisation plans even after acquisition.

The Ministry stated (January 1994) that the Company had drawn up a plan to utilise the land for transit accommodation, residential flats, bachelor accommodation and record room at a cost of around Rs.3 crores and the Company was being asked to finalise the utilisation plan and obtain approval of its Board of Directors for its implementation. The Ministry also stated that non-availability of land in a metropolitan city like Bombay and the very high cost of opportunity lost cannot be ignored.

However, the Company has not finalised its plan of action for utilising the land so far (October 1994).

The loss of interest (worked out at 18% per annum) on the blocked amount of Rs.466.29 lakhs till October 1994 was Rs.432.68 lakhs.

2.6 Idle investment in a railway siding

Indian Petrochemicals Corporation Limited (IPCL) approached Central Railway, Bombay in March 1982 for establishing a railway siding for (i) transportation of construction material and equipment during the construction phase of Maharastra Gas Cracker Complex (MGCC), Nagothane expected to commence in early 1983 and (ii) transportation of coal, finished products and chemicals during the operating period, which was expected to commence in early 1987. The railway siding was to be provided in two phases viz. a temporary siding during construction and a permanent siding including marshalling yard during operation of MGCC. Central Railway was paid Rs.3.13 lakhs towards survey charges.

In August 1984, Government of India approved the setting up of MGCC with completion of the project scheduled for August 1989. Due to environmental reasons, Government had approved use of gas as fuel in place of coal thus eliminating the major traffic load of coal during the operating period. Central Railway was informed in September, 1984 that the railway siding was required only for the construction phase upto August 1989 and materials for construction would start flowing from the last quarter of 1985. Central Railway sought in December, 1985 IPCL's acceptance of the rough abstract estimate of Rs. 244.29 lakhs and a deposit of Rs. 239.94 lakhs to enable them to take up the work. The IPCL deposited the amount in January 1986 and a further Rs. 7.24 lakhs in January 1988 following the revision of the abstract estimate to Rs. 251.53 lakh in November 1987.

The railway siding which was intended for use during the construction phase upto August 1989 was commissioned only in March 1989 by which time the construction material had already been transported to the project site by road rendering the railway siding superfluous.

The Ministry stated in December 1993 that IPCL was drawing up a plan to utilise the railway siding for movement of their finished products which has been necessitated because of the frequent strikes by transporters and also keeping in view

the heavy congestion on Western Highway. It further added that movement of the products by rail would also be cost effective.

The railway siding was intended only for the construction phase. The Ministry's reply does not in any way alter the fact that due to lack of proper planning and scheduling, the siding was not available during the required period resulting in the investment of Rs. 250.31 lakhs in the railway siding remaining unproductive.

DEPARTMENT OF FERTILIZERS

The Fertilisers And Chemicals Travancore Limited

2.7 Extra expenditure on cooling water treatment

At the time of commissioning of the caprolactum plant of Fertilisers And Chemicals Travancore Limited (FACT), in October 1990 M/s. Stani Carbon LV Netherlands, the technical consultant, had advised FACT that they should engage only a reputed and experienced party to ensure the supply of properly treated water to its cooling towers which was essential for the efficient functioning of the plant. In June 1990, Company A of Madras was entrusted for one year with the work of treating the cooling water. The treatment by Company A was found to be unsatisfactory from the very beginning, with complaints of low pH and severe corrosive condition of water in the system. Consequently, the ammonia condenser purchased as a part of the imported refrigeration system got severely damaged and 274 of its 3436 tubes had to be plugged restricting its refrigerating capacity. A new ammonia condenser was purchased from Company B of Bombay at a cost of Rs.112.80 lakhs as a replacement to the damaged one and installed in May 1992. After adjusting the depreciation reserve of Rs.11.30 lakhs, the written down value of the old condenser of Rs.83.55 lakhs was written off in the accounts of 1992-93.

The situation further deteriorated with a number of heat exchangers' leaking, and the performance of Company A becoming totally unsatisfactory. The main plant had to be shut down for 60 days in 1991 and the Company has acknowledged that 25 days were due to the after-effects of the heavy bio fouling corrosion, with consequent production loss. The contract with Company A was terminated in March 1991 and Company C of Madras was appointed in their place in April 1991. Before Company C could start regular treatment of cooling water, they had to undertake hydrojet cleaning, acid pickling, bio-cleaning and passivation. Some of the heat exchangers which developed leaks were rectified by plugging the tubes, 7 damaged heat exchangers were retubed, orders for 10 new heat exchangers were placed at a total cost of Rs.93.59 lakhs.

FACT had not ascertained the capabilities of Company A, before awarding them the contract or consulted other companies like Madras Fertlilizers Ltd., Zuari Agro Chemicals etc. as was done subsequently while awarding the contract to Company C. FACT's decision was based only on the advice of the tender committee and influenced largely by the fact that Company A had made the lowest offer. However as the offer was only 14% of the figure quoted by Company C who had also tendered FACT as a matter of prudence should have examined the competence of the firm and the workability of its rate, as this was not done FACT had to incur extra expenditure of Rs.125.77 lakhs besides production loss of Rs.765.70 lakhs for 25 days.

The Company (November 1994) attributed its failure to properly monitor the activities of the contractor and to take timely corrective steps to its preoccupation with the commissioning of its caprolactum plant.

The matter was referred to the Ministry in October 1994 and their reply is awaited (November 1994).

FERTILIZER CORPORATION OF INDIA LIMITED

2.8 Expenditure on Waste Heat Boilers

The Talcher unit of FCI has three gasifier Waste Heat Boilers (WHB) for generation of high pressure steam to meet the demand of the plant as well as to supply steam to Heavy Water Project. In 1984 all the three boilers were by passed due to leakages. In December 1985 the Board of Directors approved the modification of the three WHBs at a cost of Rs.763 lakhs (FE Rs.303.05 lakhs). Materials were procured between January 1987 and November 1988 at a cost of Rs.633 lakhs (FE Rs.325 lakhs). Meanwhile materials for modification of one WHB had been loaned by the Ramagundam unit of the Company and this job was completed in October 1988. In May 1992 this boiler had to be bypassed due to repeated failure of water wall tubes. The modification of two other boilers was kept in abeyance pending a study of extensive thinning down of water wall tubes in similar boilers at Ramagundam unit by BHEL. While materials borrowed from

Ramagundam were returned in March 1989, materials worth Rs.416. lakhs for the modification of two boilers have been lying idle since November 1988. Generation of steam continues to be affected as all the three WHBs are non-functional.

The Management stated in September 1993 that they had opted for full scale modification with water wall tubes which would be more economical in the long run and by procuring some of the material beforehand capital savings had been effected. However, the Management's contention is not borne out by the facts, as the failure of the Water Wall tubes in Ramagundam was detected in May 1988 but the study was assigned to BHEL only in 1991. Besides the WHBs have not been commissioned yet though BHEL completed their study in Ramagundam in January 1992.

Thus, far from effecting capital savings, the Company's failure to take a complete view of the situation before ordering the imports resulted in locking up of Rs.416 lakhs for a period of six years.

The status of installation of modified Waste Heat Boilers at Talcher was discussed in detail in the meeting of the Board of Director in March 1994. The Board desired a thorough analysis of the reasons for failure of the scheme and also specific recommendations of the Management for not using the materials available for modification of WHB boilers. Further developments in this regard are awaited (December 1994).

Further in view of the shortage of medium pressure steam at the Talcher plant, the Company decided in February 1985 to install a fourth Waste Heat Boiler of 60 TPH (tonnes per hour) capacity as an additional source of steam which would utilise the waste heat of a Gas Turbine already commissioned at Talcher. Accordingly an order was placed with BHEL for a 55 TPH boiler in May 1987. The Waste Heat Boiler was scheduled to be commissioned by March 1988, at an estimated cost of Rs.375.98 lakhs. It has not been commissioned till July 1994; expenditure incurred till March 1992 was Rs.449.08 lakhs.

The Gas turbine itself is a standby equipment planned to run 4 to 5 months annually during periods of restricted power supply. The boiler operation being wholly dependent on the operation of the Gas turbine, steam supply from the Waste Heat Boiler cannot be continuous. In fact, between 1988-89 and 1992-93, the Gas turbine worked for only 0.89% to 17.32% of the available hours because of its high operating cost and the availability of low cost power. In view of its limited scope for operation, the benefit expected from WHB is minimal.

The Management stated in July 1992 that the delay in commissioning the WHB has not affected production; however, at the time of deciding on installation of WHBs it had been assessed by the Company that on an average, the Talcher Plant loses production of about 5 days in a month because of break down of the existing boiler and non-availability of additional sources of steam. The Management further stated in September 1993 that the progress of work had suffered due to severe funds constraints.

Thus the entire investment of Rs.865.08 lakhs on Waste Heat Boilers is not likely to be of much use to the Company. In fact there is already a proposal before the Company to install yet another 140 TPH boiler with coal as feedstock; one reason for the Company to consider this proposal is that the Waste Heat Boiler with Gas turbine cannot be a continuous source of steam.

The matter was referred to the Ministry in February 1994; their reply has not been received (December 1994).

2.9 Infructuous expenditure on consultancy services

The Company placed in March 1989 and April 1990, three work orders on a Public Sector Undertaking for providing engineering consultancy services in respect of treatment, recovery and reuse of Ammonia Chromate solution under circulation in Absorption-Refrigeration Section; treatment of Methanol and HCN bearing effluents from Rectisol Section of Ammonia Plant; and inter-connection/hookup jobs for the two schemes. These effluent treatment measures were stated to be required so as to remain within the Minimal National Standards

(MINAS) and the limits prescribed by Andhra Pradesh Pollution Control Board (APPCB).

The Company incurred (May 1989 - March 1992) an expenditure of Rs.11.62 lakhs towards consultancy services. In October 1991 it was observed by a Technical Committee constituted by the Company that the final discharge from the factory did not contain even a trace of HCN and/or methanol and chromate was within the MINAS/APPCB limits and no effluent would be discharged in the river after commissioning of a new ash pond. Further, as the Company was facing acute shortage of funds it was decided to drop the effluent treatment schemes for which consultancy had been contracted. The facts indicate that abinitio there was no need for engaging the services of a consultancy firm.

Thus, the placement of the work orders without technical assessment of the requirement, and the position regarding availability of funds resulted in an infructuous expenditure of Rs.11.62 lakhs.

The matter was reported to the Management and the Ministry in May, 1994. No reply has been received (December 1994).

2.10 Injudicious purchase of land

The Company acquired a plot of land measuring 4261 square metres on 90 years lease from New Okhla Industrial Development Authority(NOIDA) in May 1989 for construction of an office building. The possession of the plot was taken in October 1989 by making payment of Rs.121.18 lakhs (cost of land: Rs.106.53 lakhs and stamp duty:Rs.14.65 lakhs). According to the terms of the lease deed, the Company was liable to pay lease rent of Rs.2.66 lakhs per annum and extension of time beyond 3½ years to complete the building would involve a penalty at 4 per cent of the lease rent per annum.

The Company had been passing through acute financial crises year after year when the plot of land was acquired. Since the Company did not have adequate resources to fund the construction, no construction could be undertaken. The

Company is negotiating with NOIDA for surrendering the land; NOIDA has agreed to refund the cost of land of Rs.106.53 lakhs, but the payment of interest to the Company was being negotiated (December 1994).

Thus, owing to an injudicious investment decision taken at a time when the financial position of the Company was precarious (accumulated loss as on 31st March 1989 was Rs.1070.22 crores against paid up capital of Rs.581.89 crores), the Company is burdened with a financial loss of Rs.119.37 lakhs upto March 1994 arising from unproductive lease rent (Rs.12.02 lakhs), stamp duty (Rs.14.65 lakhs) and interest foregone,calculated at 17 percent per annum (Rs.92.70 lakhs) on the amount expended. No penalty for non-construction has been claimed by NOIDA, so far.

The Ministry stated in January 1994 that the Company's decision to purchase the land was in accordance with the directives of the Ministry of Urban Development for dispersal of offices of PSUs outside Delhi. At the time of purchase of land, the Company was expecting improvement in its financial performance with the implementation of some revamping schemes under consideration. These did not materialise and since the Company did not have adequate resources, no construction activity could be undertaken. As the Company's financial position deteriorated further, it was declared a sick company in November 1992 under the provisions of Sick Industrial Companies Act, 1985 .

The reply of the Ministry is not tenable since the decision to purchase the land was taken at a time when the Company was already in poor financial shape and would have found it difficult to raise resources (preliminary estimated cost : Rs.2.72 crores) for construction of the office building. The decision, at that stage, to purchase land costing Rs.121.18 lakhs was, therefore, unjustified.

2.11 Blocking of funds on import of spares

Fourteen consignments of spares procured by the Gorakhpur Unit of the Company at a cost of Rs.150.03 lakhs arrived at Calcutta Port between March 1990 and April 1991. Eleven consignments were cleared on payment of customs duty

(Rs.83.40 lakhs) and penal interest (Rs.6.17 lakhs) and stored in the clearing agent's godown. Three consignments still remain in the customs bonded warehouse as the Company does not have the funds to pay the estimated customs duty(Rs.89.90 lakhs) and penal interest (Rs.54.37 lakhs).

The spares are of no use to the Unit as restarting of production in the Unit, which was shutdown in June, 1990, is uncertain. Consequently spares costing Rs.150.03 lakhs are lying unutilised; on customs duty and penal interest Rs. 89.57 lakhs has already been spent and the Management is liable to pay an additional Rs.144.27 lakhs, without having received any return from this outlay.

While admitting the fact of blocking of funds for about 3 to 4 years, the Management stated in January, 1994 that the Government was yet to take a decision on the revival of the plant and despite repeated efforts, no other buyer had come forward to purchase these spares.

The Ministry,however, stated in October, 1994 that any decision on revival of the plant would depend on the outcome of the proceedings before the BIFR, to whom the Company was referred on 12th November 1992.

HINDUSTAN FERTILIZER CORPORATION LIMITED

2.12 Avoidable expenditure on rent of a godown

In May 1984, the Company hired 22529 sqft. of godown space having storage capacity of 3000 tonnes at a monthly rent of Rs.49,563 at Santoshpur, West Bengal. The godown was utilized for handling the imported materials at Calcutta Port from 1984-85 to 1986-87. Subsequently there was no handling of imported materials but the godown could not be surrendered pending disposal of some damaged stock (828 tonnes of Di-Ammonium Phosphates and 132 tonnes of Urea) received in water soaked, lumpy condition and stored in the godown since 1985-86. In January 1987,limited tenders were invited for disposal of the damaged stock,but there was no response.After this,in January 1988, the samples of the damaged stock were tested to determine the quality and a reserve price of Rs.2903 per tonne

was assessed for DAP. Limited tendering was again resorted to after expiry of about one year in November 1988 against which the highest rate obtained was Rs.1100 per tonne for DAP and again in June 1990, which did not evoke any response. Another quotation of Rs.1923 per tonne of DAP was also received in July 1990 on single tender basis. None of the offers was accepted as the Management decided in October 1990 that a press advertisement should be made for disposal of the damaged material. Eventually, following the press advertisement, the stock was disposed of in 1991-92 at Rs.1625 per tonne for DAP and Rs.1255 for urea. The total amount realised was Rs.13.41 lakhs. On the lifting of the materials by the customer, the godown was surrendered in April 1992.

Because of delay in disposal of the damaged stock, the godown was retained for five years from April 1987 to April 1992. During this period, the Company incurred expenditure of Rs.30.23 lakhs towards rent of the godown which could have been avoided.

The Marketing Division of the Company stated in December 1993 that the handling at Calcutta Port was reduced after 1986-87, but the godown could not be surrendered pending disposal of some old damaged stock stored there since 1985-86. The Management further stated in August 1994 that the hiring of the godown from April 1987 to April 1992 was also due to anticipation of allotment of handling contracts for imported fertilizers to the Company during this period. The Ministry endorsed (October 1994) the views of the Management.

The fact remains that no new stock was handled through this godown after April 1987.

2.13 Failure to repair Boiler Tube Bundle

The tube bundle procured in August 1987 for Reformed Gas Boiler in Ammonia Plant from a foreign supplier and installed in September 1987 at a total cost of Rs.144.25 lakhs failed on 19th March, 1988 due to leakage of water from one riser tube. The suspected cause of damage was long-term over heating due to non-circulation of water owing to failure of normal as well as emergency power. No

enquiry was, however, conducted through an independent surveyor (as recommended by the plant management) to ascertain the actual cause of failure of tubes within the guarantee period (12 months from commissioning) for the purpose of lodging a claim against the foreign supplier, as the Company Management felt that the damage was the result of a natural calamity i.e.a power failure on that day due to heavy storm and rains.

In April 1988, the foreign supplier was approached for deputation of personnel to site for undertaking the repair. In response the supplier confirmed (May/June 1988) that repair of the tube bundle was possible at site and also intimated the terms for undertaking the job. The supplier also furnished (August 1988) details of repair works along with materials and mandays required for the job. Meanwhile, the Company contacted another Central PSU (FACT, Cochin) having a similar boiler in operation; who advised in July 1988 that to their knowledge the supplier was the only agency who could undertake such a difficult repair job. Accordingly, it was decided by the Management in November 1988 to engage one technician of the supplier for 25 days for the job at an estimated cost of around Rs.3 lakhs.

Subsequently, in order to reduce the repair cost, the Management in January 1989 decided instead to engage one local firm to undertake (with the technical details received from the supplier in August 1988) the repair at a cost of Rs.74,000. Since further leakages noticed in riser tubes during the course of repair work by the firm (March 1989) were at an inaccessible location, the firm expressed its inability to continue with the work and Rs.0.64 lakh was paid to the firm for the work done.

The foreign supplier who was again contacted in May/July 1989, proposed in September 1989 to depute one boiler specialist to site to complete the repair work. A Committee, formed in November 1989 by the Company to examine the entire issue, however opined that the residual life of the tube bundle for useful service after repair was very uncertain and therefore, it was not worthwhile to pursue further the repair of the tubes. Accordingly, the tube bundle was declared as

scrap and sold by auction for Rs.0.75 lakh in July, 1990.In August, 1993 the Board of Directors approved the write off proposal of the loss of Rs.135.50 lakhs (cost less depreciation and scrap value).

The Management stated (August 1994) that the decision to have the repair done by a local firm was based on a telexed advice of the foreign supplier received in September 1989. The telex message cited by the Management did not, however, contain such advice. The Ministry stated (October 1994) that the failure of the tube bundle was due to an unforeseen natural calamity which was not covered by the supplier's guarantee.

Thus, the Company suffered a total loss of Rs.136.14 lakhs (including repair cost paid to the local firm) for lack of timely action to get the equipment repaired by the supplier.

2.14 Avoidable payment of customs duty

The Barauni Unit of the Company procured spares for primary reformer outlet header from a foreign supplier at a landed cost of Rs.5.42 lakhs. The spares which arrived at Calcutta Port in December 1988 were cleared in March 1989 on payment of customs duty of Rs.18.96 lakhs. The goods were described in the Bill of Entry as pipes; consequently there was over assessment of the customs duty on the goods to the extent of Rs.10.98 lakhs. The Company lodged in August 1989 a claim before the Assistant Collector of Customs for refund of the excess duty paid by them on the ground that the imported goods were spares which should have been assessed under a different classification from pipes. The claim was rejected in November 1989 by the Customs authorities as there was a specific description of goods as `pipes' in the Bill of Entry and further the goods were out of customs control and no physical examination was possible to verify the correctness of the claim. The appeal made to the Collector of Customs (Appeals) was turned down in April 1990 on the same grounds. In August 1990, the Company submitted an appeal to the Customs Excise & Gold Control Appellate Tribunal without any result, so far (October 1994).

Thus, owing to incorrect description of the goods in the Bill of Entry and failure to lodge the claim for correct assessment of duty before clearing the goods from customs control, the Company has incurred an avoidable expenditure of Rs.10.98 lakhs on customs duty.

The Management stated in September 1994 that they were still pursuing the case with the Appellate Tribunal for refund of customs duty paid in excess .

The Ministry felt (December 1994) that the specification of goods had been correctly noted on the Bill of Entry.

2.15 Failure to insure Electrostatic Precipitator

On the night of 15th September 1991, the electrostatic precipitator (ESP) of Boiler No.1 of the captive power plant at the Barauni Unit of the Company collapsed alongwith its supporting structure. The Company had a boiler pressure vessel policy with the United India Insurance Company for an assured sum of Rs.1094.20 lakhs. The insurer was telegraphically informed about the accident on 16th September 1991 and formal claim for Rs.279.81 lakhs was lodged with the insurer in April 1992. The insurer deputed their surveyor for assessing the loss and the claim was finally rejected in August 1993 due to non-coverage of ESP in the insurance policy. In a joint meeting of the officers of the Company and insurer on 2nd August 1993, the Management accepted the views of the insurer and at the time of subsequent renewal of the policy effective from November 1993, ESP was shown separately in the insurance policy.

Thus, due to non-coverage of ESP under the insurance policy, the Company had to suffer a loss of Rs.279.81 lakhs.

While admitting the omission, the plant management stated in November 1993 that the earlier insurance policy did not specifically indicate ESP as per past practice. But the Management/Ministry, however. stated in August/Septemnber 1994 that the Company had strongly taken up the matter for settlement of their

claim with the highest authorities of the insurer. Further developments are awaited(October 1994).

PROJECTS & DEVELOPMENT INDIA LIMITED

2.16 Loss in execution of a contract job

The Company was awarded a contract by National Thermal Power Corporation Limited (NTPC) in October 1987 for design, engineering, manufacture, supply, erection, testing and commissioning of a demineralising plant at Auraiya, Uttar Pradesh at a lumpsum cost of Rs.278.74 lakhs(subsequently revised to Rs.304.16 lakhs). Against the scheduled date of completion of April to June 1989 (Ist and 2nd stream), the contract job was actually completed in August 1990 at a total cost of Rs.393.71 lakhs. The excess of cost over contract value (Rs.89.55 lakhs) was attributed by the Company to increase in cost of materials and overheads due to delay in completion of work by one sub-contractor and subsequent placement by the Company of the order for the balance jobs at higher rates.

The contract with NTPC contained a provision for liquidated damages for non-performance of equipment vis-a-vis specified parameters. The performance guarantee tests for the plant were conducted by the Company between 23rd and 28th January 1991 and there was :

(a) shortfall in net output between two successive generations from Cation-Anion-Exchangers; and

(b) excess power consumption by pumps.

The reasons for shortfall in performance were as follows:

(i) the safety margin taken during the design stage was very meagre which resulted in design deficiency of Cation-Anion-Exchangers; and

(ii) the guaranteed values for power consumption quoted by the Company before receipt of confirmation from pump vendors proved to be unrealistic later on.

The final payment for the work was made by NTPC after deduction of Rs.20.78 lakhs as liquidated damages for shortfall in net output and excess power consumption.

Thus, apart from the loss of Rs.89.55 lakhs for expenditure in excess of the contract value, the Company suffered an avoidable loss of Rs.20.78 lakhs in the shape of liquidated damages.

The Management stated in August 1994 that the actual loss was only Rs.19.66 lakhs as the expenditure of Rs.90.67 lakhs on manpower cost, corporate office business development and other overheads, which were fixed in nature, would even otherwise have been incurred. Further, the contract was bagged against very stiff competition and the rates accepted did not include sufficient margin to take care of major fluctuations; this was done as the Company did not have enough jobs at that time. The Ministry endorsed (October 1994) the views of the Management.

RASHTRIYA CHEMICALS & FERTILIZERS LIMITED

2.17 Loss due to shortages in stock of urea

In April 1987 the Company entered into a Memorandum of Understanding (MOU) with M/s. Indian Potash Limited (IPL) for marketing of urea in the States of Punjab, Haryana, Uttar Pradesh, Bihar, Rajasthan and West Bengal. The quantity of urea to be handled by IPL in these States was to be around 5 lakhs tonnes per annum subject to necessary Essential Commodity Allocation (ECA) given by the Government. The validity of the agreement was initially for a period of three years. IPL was to furnish despatch plans in advance to the Company indicating locations and capacities of storage in order to meet the sales plan for marketing in the States concerned.

During 1987-88 and 1988-89, IPL sold only 24947 tonnes of urea in Bihar (15984 tonnes in 1987-88 and 8963 tonnes in 1988-89) against 40864 tonnes of urea supplied to them. As the sales in other States were also not to the desired level, the

Company decided to take back the stock of urea lying in the godowns of IPL. Accordingly, 44951.387 tonnes of urea were lifted by the buffer stockists from the godowns of IPL in the States of Punjab, Haryana, Uttar Pradesh and Bihar during 1988-89 and 1989-90.

The procedure followed by the Company is to deliver the stocks to the dealers/stockists on the basis of branded weight. However, actual weighment is required to be done at the time of standardisation of material, if bags are in cut and torn condition or there is a visible shortage of material in bags. Though the bags were in badly cut and torn condition, the stocks were lifted (1988-89) on branded weight basis (ie. 20 bags equal to one tonne) instead of by actual weighment. On subsequent weighment of the lifted stocks made on different dates in 1988-89 and 1989-90, a total shortage of 4595.376 tonnes was noticed.

The shortages in the stocks lifted from IPL godowns worked out to Rs.102.02 lakhs at the selling rate of Rs.2220 per tonne.

The Ministry stated (October 1993) that due to a glut in the market IPL could not sell the material. The Ministry further stated "IPL refused to give back the material on actual weighment basis but only on bag to bag basis. RCF had no alternative but to accept this condition in order to avoid further losses on inventory carrying cost". The Ministry also stated that the loss suffered by the RCF while taking back the unsold urea on bag to bag basis would be included in their claims to be submitted to the arbitrator.

The Ministry's reply is not tenable in view of the fact that as per clause 2(iv) of the Memorandum of Understanding, IPL was responsible for safe and proper custody of the stocks. IPL had also agreed to indemnify the Company against any losses/damages caused to the stock. As the bags were in a torn condition, the stocks should have been taken back only after re-bagging by IPL and the shortages should have been recovered from them. Even though huge stocks were placed with IPL, no security deposit was obtained from IPL for meeting possible losses. The dispute was referred to an arbitrator in November 1993 and in the award made by the

arbitrator(March 1994), an amount of Rs.10.50 lakhs only was awarded towards takeover losses.

Thus, the loss due to shortage borne by the Company amounted to Rs.91.52 lakhs.

2.18 Extra-contractual payments

The Company awards a number of maintenance/service contracts for catering, house keeping, security, maintenance of lawns and gardens, etc. These contracts involve engaging of a number of labourers by contractors for the execution of the specified jobs. One of the conditions of the contracts is that the bonus payable by the contractors to their workmen in accordance with the Bonus Act will not be reimbursed by the Company.

During the period from 1990-91 to 1992-93, the Company apart from paying to the contractors the contracted amount also paid an amount of Rs.36.79 lakhs to the contractors towards bonus which was beyond the terms of the contract. The Management stated (March 1994) that the amount pertained to the reimbursement to the contractors of the bonus amount paid by them to their labourers in excess of 8.33 percent. The Management also stated that the practice in vogue was to evaluate the bids and award the jobs to the contractors based on 8.33 percent towards bonus. Every year the Company made the contractors negotiate with the labour unions for something better than 8.33 percent of bonus taking into account their performance of the jobs and then the Company reimbursed the extra amount i.e.beyond 8.33 percent to the contractors.

The Management's reply was not tenable for the reason that the payment was extra contractual and there was no method by which it was ensured that the extra payment actually reached the labourers.

The matter was referred to the Ministry in September 1994; their reply has not been received (December 1994). In the meantime, the Company paid (October 1994) Rs.7.02 lakhs to the contractors towards bonus for 1993-94.

CHAPTER 3

MINISTRY OF CIVIL AVIATION AND TOURISM

DEPARTMENT OF CIVIL AVIATION

AIR INDIA LIMITED

3.1 Non-compliance with the Income Tax Act

Air India Limited (Air India) pays various types of allowances to its pilots, which were considered non- taxable under Section 10(14) of the Income Tax Act until March 1989. However, with effect from 1st April 1989, this Section was amended and in terms of the amendment, only the allowances granted to meet expenses wholly, necessarily and exclusively for the performance of duties were made exempt from tax provided they were notified as such by the Central Government in the Official Gazette.

Accordingly, Air India requested (March 1990) the Central Board of Direct Taxes (CBDT) for exemption from payment of income tax on the allowances paid to their pilots. But CBDT disallowed (March 1990) three allowances, namely `Inertial Navigation Allowance', `Flying Management Allowance' and `Lecture Allowance'on the ground that these allowances were in the nature of special pay and hence beyond the purview of Section 10 (14) of the Act. Air India again represented (April 1990) for exemption from income tax of the allowances, but no response was received by Air India from CBDT till 30th November 1993. Meanwhile Air India continued to pay the three allowances as before without deducting income tax at source despite their not having been exempted. These allowances were also not reflected in the salary certificates issued under Section 203 of the Income Tax Act for the purpose of showing tax deducted at source from income chargeable under the head `Salaries'.

On 30th December 1993 the Asstt. Commissioner of Income Tax, TDS circle, Bombay issued a demand notice for Rs.4.65 crores for tax (Rs.3.48 crores)

for the assessment years 1989-90 to 1993-94 alongwith interest (Rs.1.17 crores). As Air India failed to pay the amount within the prescribed time limit of 30 days, they received another demand notice dated 3rd January 1994 amounting to Rs.4.35 lakhs towards interest for the month of December 1993. An amount of Rs. 4.69 crores (Rs. 4.65 crores plus Rs.0.04 crore) was paid by Air India on 17th January 1994. The tax paid has not been recovered from the pilots so far (November 1994).

Thus, Air India incurred an avoidable expenditure of Rs.4.69 crores due to non-compliance with the provisions of the Income Tax Act.

The Ministry, while accepting the facts and figures, stated (December 1994) that Air India had no intention of contravening the provisions of the Income Tax Act and that in the absence of a specific reply from the CBDT, Air India continued to pay Inertial Navigation Allowance, Flying Management Allowance and Lecture Allowance as before without deduction of tax at source. The Ministry further stated that Air India had already filed an appeal with the Commissioner of Income Tax (Appeals), Bombay and pending the outcome of the appeal, the recovery of tax from the pilots has been kept in abeyance.

INTERNATIONAL AIRPORTS AUTHORITY OF INDIA

3.2 Delay in construction on a leased plot

In November 1988, the Authority leased for 30 years a plot of land measuring 28,000 square metres in the vicinity of Indira Gandhi International Airport at Delhi for the construction of a hotel. The formal agreement was concluded with the lessee in September 1989.

In terms of the agreement effective for 30 years from 7th September 1989, the lessee was to pay Rs.14 lakhs per annum as lease money (land rent), subject to revision by the Authority with effect from Ist January 1990 and at intervals of three years thereafter. From the date of commencement of operations or three years after the execution of the agreement, whichever was earlier, the lessee was also to pay a fixed sum (royalty) ranging from 3.5 to 20 per cent of the gross annual turnover of

the hotel or a minimum guaranteed amount ranging from Rs.20 lakhs to Rs.600 lakhs per annum, whichever was higher.

Possession of the land was handed over to the lessee in February 1990. The annual land rent was also revised to Rs.19.60 lakhs with effect from Ist April 1990. Construction of the hotel could not, however, commence because of the existence of an electrical sub-station and underground cables and electric poles with overhead lines which appeared to have been ignored at the time of the allotment of the plot. Delhi Electric Supply Undertaking was requested in March 1990 to arrange for the shifting of the poles and overhead lines. The Headquarters of the Authority was informed of the position by the Airport Directorate only in September 1990, when approval to an expenditure of Rs.7.50 lakhs on the shifting of the sub-station to another location was sought. The sub-station was shifted in November 1993 at a total cost of Rs.33.24 lakhs.

The lessee had not been paying the rent and the lumpsum amount (royalty) in terms of the agreement and had declined to pay the rent for the past periods on the ground that, because of the obstructions, the land was not physically available to them to commence construction. The outstandings on this account had accumulated to Rs.152.69 lakhs by December 1994. The bank guarantees furnished by the lessee expired in the meantime; and had not been renewed.

Failure to ensure that the land was free from obstruction prior to its allotment, combined with the subsequent delay of over four years in removing the obstructions and handing over vacant possession of the land to the lessee resulted in the non-realisation of revenue aggregating to Rs.152.69 lakhs and an avoidable expenditure of Rs.33.24 lakhs on the relocation of the sub-station.

The Management attributed (Jannary 1994) the delay of about nine months in executing a formal agreement to the time taken in finalising certain clauses of the agreement against which the lessee had represented and stated that the existence of the sub-station and overhead lines was always known to the Authority.

If, as stated, the existence of the obstructions was "always known" to the Authority, it is not clear why the suitability of the land for the intended purpose and the sanction for removal and relocation of the existing structures were not established before the lease agreement was signed.

The matter was referred to the Ministry (July 1993); their reply has not been received (December 1994).

NATIONAL AIRPORTS AUTHORITY

3.3 Charges for Route Navigation Facilities

The National Airports Authority(Authority) levies Route Navigation Facilities Charges (RNFC) on all aircraft using Indian air space at domestic airports managed by it and at the four international airports (Bombay, Calcutta, Delhi and Madras) managed by the International Airports Authority of India (IAAI). The charges recoverable vary with reference to the weight of the aircraft. While common rates of RNFC are prescribed for both domestic and international flights utilising the facilities at the domestic airports, comparatively higher rates are prescribed for domestic and international flights at the four international airports. Besides, the Authority also recovers Terminal Navigational Landing Charges (TNLC) at prescribed rates from the domestic and international flights at the international airports.

Trivandrum Airport was also declared an international airport with effect from January 1, 1991 and the responsibility for its management and maintenance was transferred to IAAI from April 1, 1991. Consequently and as an interim measure, the Authority fixed the rates of TNLC recoverable from the domestic and international flights at 55 per cent and 75 per cent respectively of the charges then applicable at the four other international airports with effect from April 1, 1991. Rates of RNFC were, however, not concurrently revised to correspond to the higher rates applicable at other international airports. With effect from December 1, 1992 a revised tariff structure in respect of RNFC at international airports was formulated

prescribing common rates for both domestic and international flights; these rates were extended to Trivandrum Airport as well.

Failure to revise the rates of RNFC at Trivandrum Airport from April 1, 1991 in conformity with rates applicable at the other four international airports resulted in short collection of these charges to the extent of Rs.149.44 lakhs from the airlines utilising the facilities up to November 30, 1992.

The Ministry stated (May 1994) that the Authority had not proposed any increase in the rates of RNFC at Trivandrum Airport corresponding to those applicable at the other four international airports and that the rates were revised at the first available opportunity with effect from December 1, 1992. They added that this was in pursuance of a direction given by Secretary, Civil Aviation while discussing the modalities of transfer of assets between the Authority and IAAI that the charges should not be increased for some time merely on change of status of the airport because it would take time to provide infrastructural facilities of international standard at Trivandrum Airport.

Audit scrutiny of the records, however, revealed that the purported direction was apparently given only with reference to a proposal mooted by the Authority for the revision of the TNLC at Trivandrum Airport and that the question of upward revision of RNFC was never considered by the Authority, as admitted by the Ministry themselves. Besides, apart from the fact that a number of international flights were, in any case, operating to and from the airport even prior to the change in its status, the Authority had also brought to the notice of the Ministry subsequently in March 1992 that the equipment and facilities provided at the airport were on par with those provided at the other four international airports and that there was, therefore, "a strong case" for the levy of TNLC at the same rates as were obtaining at the four other international airports. Further, no additional infrastructural facilities were provided at the airport by the Authority during the intervening period until the rates of RNFC were subsequently revised with effect from December 1, 1992. In the circumstances, the failure to revise these charges with effect from April 1, 1991 itself, when TNLC were revised, would not appear

to have been in the best financial interests of the Authority, even if it were to be accepted that the Ministry's reported directive related to these charges as well.

DEPARTMENT OF TOURISM

INDIA TOURISM DEVELOPMENT CORPORATION LIMITED

3.4 Tourism Task Force

In May 1991, the Board of Directors of the Company approved the creation of a Tourism Task Force to act as a catalyst for the creation of facilities for tourism in new areas and for strengthening the existing tourism infrastructure. The Task Force was to be responsible for evolving new ideas for the promotion of tourism to selected destinations, assessing their potential, planning integrated projects for the purpose, etc. It was to associate, from the beginning the State Tourism Development Corporation/local authorities in the investigation, planning and execution of such projects with a view to training the local manpower to take over the activity as soon as practicable.

The Task Force was to be manned by volunteers selected from different Divisions/Units of the Company who were to be offered certain specified incentives. Each activity of the Task Force was also expected to generate its own revenue. While the capital investments required in the initial stages were to be provided by the Ministry of Tourism, all the recurring expenses of the Task Force were to be met in the long run on a no-profit-no-loss basis.

Between November 1991 and June 1993, the Task Force organised seven camps of short duration ranging from one to two months, in the Andamans and at Bir, Coorg, Diu, Jaisalmer, Narwar and Solang Nallah for the promotion of adventure and beach tourism. No camps were organised thereafter. Though the Task Force was to function on a no-profit-no-loss basis, the revenues earned by the Company from these camps amounted to Rs.47.23 lakhs only as against an aggregate expenditure of Rs.106.21 lakhs, approximately 35 per cent of which was on account of publicity, sales promotion, etc. Consequently the activity resulted in a net loss of Rs.58.98 lakhs to the Company. The losses incurred in organising individual camps were attributed by the Management to:

- the high cost of transportation of goods and raw materials because of remoteness of the selected locations;
- the short duration of the camps; and
- inclusion of two major elements of costs, namely salaries and wages and advertisement, publicity and sales promotion.

The Management stated (August 1993) that the Tourism Task Force was to function only as a catalytic agency for the promotion of camping tourism in the country and the intention was to provide the necessary expertise to the concerned State Governments for setting up similar camps at periodical intervals at the same place or at another location of their choice with a view to promoting that destination.

The Ministry stated (January 1994) that this activity undertaken by the Company for the first time, was developmental in nature and the camps were organised by the Task force at difference locations primarily with the objective of introducing the concept of camping tourism to the concerned State Governments and providing an input to them on how it could be organised so that they could do so themselves through their State Tourism Development Corporations. They, therefore, contended that this should be viewed as a developmental activity and not as a commercial one. The Ministry added that, of the expenditure of Rs.106.21 lakhs incurred on the camps, Rs.23.79 lakhs represented expenditure on salaries of the staff who were not specially recruited by the Company but were deputed from various Units, while Rs.38.97 lakhs were spent on advertisement and publicity, and after excluding these amounts which were met from the normal budget of the Company, they had spent only Rs.43.45 lakhs.

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

(a) The mere fact that the bulk of the expenditure incurred on salaries and publicity was met only from the Company's normal budget is not by itself adequate justification for excluding such expenditure from the outlay

on the scheme. The Company had initially envisaged that all recurring expenses--which would include outlays on salaries, publicity, etc.--would be met only on a no-profit-no-loss basis. Besides personnel deputed to the Task Force had also been extended certain additional incentives not available to them in their normal sphere of duties.

(b) Though the activity was developmental in character and not expected to generate profits, it was not the intention that the Company would subsidise tourist promotion to the identified destinations, which would more appropriately fall only within the purview of the Ministry of Tourism.

(c) On a subsequent review of the activities of the Task Force in January 1994 the Board of Directors had also decided that the Task Force should provide only consultancy services for tourism development and should take up only those assignments which were commercially viable.

(d) Appropriate measures were also not taken in consultation with the Ministry of Tourism-the nodal agency for tourism promotion- and the concerned State Governments/local administrations to ensure that such camps were organised on a continuing basis so as to facilitate the sustained exploitation of the potential of the identified tourist destinations. Audit scrutiny also revealed that apart from not formally associating the Ministry with the scheme at any stage, the Company had also not entered into any agreements or memoranda of understanding with the State Governments/Local Administrations to enable the development of the camp sites as full fledged tourist destinations. Instead the Company abandoned the camp sites on conclusion of the camps and moved on to new locations. The active involvement of the Ministry and the State Governments/local administrations in the implementation of the scheme could conceivably have produced better results.

The fact also remains that the expenditure in excess of a crore of rupee notwithstanding, the primary objective of creating the Tourism Task Force, namely promoting tourism to hitherto unexploited destinations having the potential had remained largely unrealised.

CHAPTER 4

MINISTRY OF COAL

BHARAT COKING COAL LIMITED

4.1 Expenditure on maintenance of a Railway Siding

The Dugda Washery of the Company had a private railway siding with track length of 23.830 Kms. The Company informed the Railways in May 1987 that the actual length of track was 16.208 kms as physically verified after excluding the dismantled/unserviceable portion of 7.622 kms for charging maintenance cost. But the Railway authorities continued to prefer bills for maintenance charges of 24 Kms as per their office records. However, in February 1991, the Railways reduced the chargeable length to 22 Kms on the basis of a joint physical survey and revised their bills from 1989-90.The Management agreed to this chargeable length and cleared the outstanding bills even though the actual serviceable length of the siding was known to be 16.208 kms after physical measurement in May 1987. The Management concluded an agreement for maintenance of the siding in May 1993 with a private contractor for a total track length of 17 kms.

The Ministry stated in July 1994 that after a great deal of persuasion, the Railways agreed to charge for 22 kms on the basis of joint physical survey. The Company, however, decided to maintain 17 kms of the track in the wake of introduction of BOBR wagons.

Thus, payment of maintenance charges for the dismantled portion of the railway siding led to an avoidable expenditure of Rs.24.23 lakhs for the period from 1985-86 to 1992-93.

4.2 Loss due to non-recovery of Middlings

The Lodna Colliery of the Company had 19,526 tonnes of Middlings in January 1990 but they had become largely irrecoverable due to being mixed with

mud and construction debris during the construction of stockyard, sidings, roads and drains, etc. A small quantity of 1673 tonnes of Middlings could, however, be recovered by September 1993 leaving a balance of 17,853 tonnes. Out of this 5284 tonnes had already been written off by the Director (Technical) in 1990-91 and the rest was awaiting write off by the competent authority.

If the Middlings had been recovered before undertaking the construction work, the Company could have earned a revenue of Rs.52.79 lakhs on its sale.

The matter was referred to the Management/Ministry in February/July 1994; their replies have not been received (December 1994).

COAL INDIA LIMITED

4.3 Avoidable payment of customs duty

The Company requested the Collector of Customs in August 1985 to register names of six new projects including Dudhichua Open Cast Mine Project as approved by the Government of India for charging concessional rate of customs duty as and when import was effected . However,under the provisions of Project Import Regulations, 1986, such concessions are available only to those goods which are imported against one or more specific contracts which, before any order is placed, are to be registered with the Custom House .

The Company imported in November 1992 a Mining Shovel of 10 cum capacity at a cost of Rs.957.91 lakhs for Dudhichua Open Cast Mine Project of Northern Coalfields Ltd (NCL). The equipment was cleared from Calcutta Port in December 1992 after payment of customs duty of Rs.526.85 lakhs .

In this case, the contract with the supplier was not registered with the Customs authorities before import as required under the Project Import Regulations, 1986. As a result, customs duty concession of Rs.239.48 lakhs allowable on project imports was not obtained.

The Company appealed (February 1993) to the Customs authorities for refund of excess duty paid on the plea that the project had been registered with the Customs in August 1985, but the claim was rejected by the Assistant Collector of Customs in October 1993 for non-registration of the import contract before the actual import was made .

The Ministry stated (December 1994) that an appeal against the orders of the Assistant Collector of Customs had been preferred in November 1994 and the Company was pursuing the matter with the Customs authorities for refund of excess duty paid.

EASTERN COAL FIELDS LIMITED

4.4 Idle investment on Railway Siding

For a railway siding as part of the reorganisation project of the Company which included a coal handling plant also, the Central Mine Planning & Design Institute Limited(CMPDIL) conducted a joint survey with the Railways in May 1980. The railway siding was decided to be constructed by Railways as a deposit work estimated to cost Rs.64.88 lakhs (1981) and required 59.545 acres of land. As the Company was unable to acquire the land well in advance, the construction work was delayed and the estimate was corrected to Rs.81.26 lakhs in June 1983,and revised to Rs.162.86 lakhs in May 1988 and to Rs.223 lakhs in 1993-94 which was subsequently reduced to Rs.165 lakhs. The Company also deposited Rs.28 lakhs in 1981-82, Rs.30 lakhs in 1984-85 and Rs.38 lakhs in 1988-89 totalling Rs.96 lakhs so far.

The Railways in turn have executed siding work for an amount of Rs.54 lakhs which involved earth work and bridge work mainly. The balance of Rs.42 lakhs of the advance has been adjusted against demurrage and other charges payable by the Company to the Railways.

Though the siding work started during 1982, it was decided in August 1988 to complete it keeping pace with the commissioning of the coal handling Plant in 1989. The work has not yet been completed (December 1994).

The Management stated in April 1994 that the delay was due to delay in acquisition of land and obstruction created by erstwhile land owners. The Ministry endorsed (November 1994) the views of the Management.

Thus, the decision of the Management to start the work before obtaining the absolute rights of the land had not only delayed the project but had led to blocking up of Rs.54 lakhs over a considerable period of time.

4.5 Avoidable expenditure on Steel Cord Belting

The Company placed an indent (June 1985) on its holding company -Coal India Limited (CIL) for procurement of steel cord belting for use in the Jhanjra project. The project was reviewed and revised cost estimates which envisaged scaling down of the activities of the project and reduction in the number of longwall faces, were prepared in March 1990 and approved by the Board of Directors of the Company in May 1990. In January 1991 the Company asked CIL to procure the steel cord belting indented earlier and CIL placed an order for 2300 metres of steel cord belting on a German Supplier in July 1991. Realising that in view of the scaling down of the project it could do without the steel belting, the Company asked CIL in January 1992 to keep the purchase in abeyance. However, as the letter of credit had already been opened by CIL in August 1991, the order issued could not be cancelled. The material was duly received at the project site in September 1992 at a landed cost of Rs.774.05 lakhs and is lying unutilised (November 1994).

Thus, delay on the part of the Company in taking steps to cancel the procurement resulted in an expenditure of Rs.774.05 lakhs on imported steel cord belting for which a use is still to be identified by the Company.

The Ministry stated in October 1993 that the procurement of steel cord belting was in consonance with the targeted production of 3.5 million tonnes per

annum which was under consideration till May 1993 when it was finally decided to reduce the target to 2 million tonnes per annum and procurement of the steel cord belting could not be avoided by CIL as the letter of credit had already been opened in August 1991, even though the need for it was overtaken by subsequent developments. Further, efforts were being made to identify and locate alternative mines in CIL where the material could be utilised gainfully.

NEYVELI LIGNITE CORPORATION LIMITED

4.6 Lapse in terminating a contract

An order for the supply of thirty six LT transformers was placed by Neyveli Lignite Corporation Limited (NLC) on a manufacturer under a package deal for its Thermal Power Station II Stage II. Against the order, 22 transformers valuing Rs.194.97 lakhs were supplied between March 1989 and November 1989. All these were rejected (July 1990) as they did not conform to the specifications indicated in the contract and as the supplier could neither rectify the defects nor replace the transformers. NLC terminated (August 1990) the contract invoking clause 15 which provided the right of termination for reasons other than contractor's default and required 15 days notice instead of invoking clause 38. Clause 38 required 30 days notice to be given in writing to the supplier, directing them to make good the deficiencies, failing which NLC would be at liberty to have the items procured from other agencies at the risk and cost of the supplier. In order to adhere to the project schedules, NLC procured (August 1990 -October 1990) similar transformers from other sources at an extra expenditure of Rs.274.24 lakhs.

The arbitrator, to whom the matter was referred by the supplier, while upholding (February 1993) the rejection of transformers as not conforming to specifications and guaranteed parameters, did not accede to NLC's claim of Rs.274.24 lakhs for risk purchase of transformers at a higher cost, since no proper notice under clause 38 had been issued.

The Ministry stated (January 1994) that termination of contract under clause 15 was deliberately resorted to instead of clause 38 because NLC felt that, firstly,

clause 15 was the only one applicable as Clause 38 mainly pertained to `works' rather than supplies and secondly by invoking clause 15, it reduced the notice period for termination from 30 days to 15 days. The Ministry also stated that if clause 38 had been invoked the supplier would be entitled to ask for a reasonable period of 24 months for replacement of the defective transformers which would have delayed the commissioning of all units of the power station and led to cost and time overruns and loss of generation.

The reply of the Ministry is not tenable as clause 38 was applicable for both works and supplies. Moreover, the Company itself in their submission to the arbitrator had argued that a letter dated 3.4.1990 issued to the supplier was a notice under clause 38 but the arbitrator, held that the letter was not definite and unequivocal. Further, clause 38 envisaged a period of 30 days after notice for a default by the supplier to be made good.

Thus, NLC's failure to issue to the firm a proper notice of termination in accordance with the conditions of the contract, resulted in the loss of its right to make a risk purchase and to recover the extra expenditure of Rs.274.24 lakhs from the supplier.

4.7 Failure to use post deposit facility

Neyveli Lignite Corporation Limited (Company) normally procures cement through public tender. Department of Public Enterprises issued instructions in January 1991 that all Central Public Sector Undertakings (PSUs) should purchase cement for the period January-March 1991 through DGS&D or directly from the manufacturers, at prices not exceeding the DGS&D rate contract prices. The Company opted for purchase through DGS&D. Public Sector Undertakings could avail of the post deposit facilities provided by DGS&D by depositing the amount due in respect of purchases made on their behalf by the DGS&D within 7 days of the receipt of the debit memo. The Company did not utilise this facility extended by DGS&D and after making an advance payment of Rs.31.81 lakhs in February 1991 for its requirement of cement for March 1991, the Company also advanced Rs.182.40 lakhs by demand draft in March 1991 to DGS&D for the cement

requirement for the period from April 1991 to June 1991. For refund of the advance of Rs.182.40 lakhs, the Company in June 1991 approached DGS&D who returned to the Company its Demand Draft dated 22.03.1991 on 3rd July 1991. Thus, the Company, by not taking advantage of the post deposit facility blocked funds of Rs.182.40 lakhs in the uncashed demand draft for the period from 22nd March, 1991 to 3rd July, 1991 and lost interest which when calculated at the average cash credit rate of 16% per annum amounted to Rs.8.24 lakhs.

The Management stated (June 1994) that the post deposit facilities extended by DGS&D to all indenting departments, were not available on the date of making the payment in March 1991.

The Ministry stated (December 1994) that the Company was instructed by DGS&D to place the indent along with deposits for the quarter April-June 1991 and they had no alternative but to follow these instructions owing to the emergent need for cement.

The contentions of the Company and the Ministry are not tenable as the post deposit facility was available to PSUs before the date of advance payment (March 1991) as evident from the pamphlet "Guidance on Indenting Departments" issued by DGS&D (December 1990) and the Company had failed to avail of the facility.

4.8 Loss of income by issue of wrong directions

The Government of India (GOI) increased the maximum retail price of Urea by 40% with effect from 25th July 1991 and then reduced the increase by 10%, effective from 14th August 1991. According to GOI instructions, only the stocks with retailers as at the close of 24th July 1991 were to be sold at the pre-revised lower price whereas the stocks with manufacturers, institutional agencies, stockists and wholesalers were to be sold at revised higher price. However, Neyveli Lignite Corporation Limited (NLC) directed (August 1991) that the stocks of Urea held at their various stock points/depots as on 24th July 1991 were to be sold at pre-revised prices. As a result of the issue of wrong directions by the Company, 3220.50 tonnes of urea available with stockists in Andhra Pradesh were sold at pre-revised

prices, prevailing as on 24th July 1991 instead of the higher revised price, resulting in a loss of income of Rs.24.05 lakhs. The mistake was detected by the Company in September 1991.

The Company confirmed the short realisation but contended (January 1993) that the sale of urea at pre-revised price by its stockists was due to the extra-ordinary and unprecedented situation following the confusion which prevailed in the market in Andhra Pradesh. The Company's efforts to have the difference in price collected from retailers by the stockists were however, rejected by the stockists who felt that such a demand on the retailers was untenable as they were not responsible for the loss. They, however, ostensibly as a gesture of goodwill, agreed in November 92, to pay to the Company as much of the amount as possible within a period of about 3 years, but without invoking any contractual obligations, and subject to some unusual conditions. The conditions accepted by the Company are: non-levy of interest on dues, non-inclusion of the dues in the Depot Bank Guarantees and treating the refunds made by them as being miscellaneous' in nature without highlighting the presence of debit notes. There is therefore, no fixed time schedule for recovery of the dues with interest at appropriate rates as there is no specific agreement/understanding between the Company and the concerned stockists. The Company has so far been able to realise only Rs.16.23 lakhs out of Rs.24.05 lakhs during the period of 40 months ending November 1994.

The Ministry endorsed (December 1993) the views of the Management.

SOUTH EASTERN COALFIELDS LIMITED AND WESTERN COALFIELDS LIMITED

4.9 Delay in declaration of long flame coal

The parameters for declaration of coal as long flame were laid down by the Government of India, Ministry of Coal in a Gazette Notification dated 4th July, 1986. The producers were entitled to a higher sale price of Rs.25 per tonne on long flame coal. As per Coal Controller's order dated 21st September 1983, the results

of loading samples had to be taken over a period of three months in order to justify declaration as long flame coal. Keeping in view this condition as well as time needed for test analysis, notice to Coal Controller and other administrative requirements, Companies should have been in a position to declare coal as long flame by 1st December, 1986 as detailed below:

	PARTICULARS	TIME	DATE
1.	Date of notification	-	4.7.1986
2.	Time considered reasonable for receipt of notification by CIL and circulation to subsidiaries/areas	12 days	16.7.1986
3.	Time required for collection of samples	3 months	15.10.1986
4.	Time considered reasonable for receipt of test results from laboratory	16 days	31.10.1986
5.	Notice required to be given to Coal Controller before declaration of coal as long flame	30 days	30.11.1986

Coal India Limited (CIL) circulated the Gazette Notification to its subsidiaries only on October 24, 1986, after a delay of more than three months. The actual time taken by the subsidiaries for declaration of long flame coal and the resultant loss is given in the following table :-

Sl. No.	Name of Company and areas	Date of receipt of notification from CIL	Date of circulating to areas	Period from which samples collected	Month of declaration as long flame	Delay beyond 1.12.86	Quantity despatched during the period of delay (lakh tonnes)	Loss (Rs.in lakhs)
1.	SECL Chirimiri Area	First Week of Nov. 86	12.11.86	Jan. 87	April 87	4 months	4.04	101.00
2.	SECL Jamuna Kotma Area	First week of Nov. 86	12.11.86	March 87	May 87	5 months	6.97	174.25
3.	WCL Chanderpur, Nagpur,Pench Kanhan & Wani	Last Week of October 1986	10.11.86	Jan. 87	May 87	5 months	36.57	914.25
								1189.50

Thus, delay at various stages in declaration of coal as long flame resulted in a loss of Rs.275.25 lakhs for South Eastern Coalfields Limited in two areas out of ten areas and Rs.914.25 lakhs for Western Coalfields Limited in five areas out of six areas.

In their reply, the Ministry justified (January 1995) the delay on the ground that 45 days notice was required to be given to Coal Controller who also required another 30 days to declare the coal as long flame. The Ministry also calculated the delay from 23rd September 1986, the date of receipt of Gazette Notification by CIL. The reply is not tenable as only 30 days' notice was required to be given to Coal Controller as per his instructions dated 21.9.1983 then in force and the grading done by the Company was final unless the Coal Controller offered any objections during this period itself. Further, there was no justification for the delay of over two and a half months in collecting/receiving the Notification dated 4.7.1986 by CIL.

SOUTH EASTERN COALFIELDS LIMITED

4.10 Non utilisation of Mine Winder Supervisory System

Central Mine Planning and Design Institute Limited (CMPDIL) placed a supply order in June 1987 on M/s Uptron India Limited for supply of one Mine Winder Supervisory System for installation in West Jhagrakhand Colliery of South Eastern Coalfields Limited (Company). The System was received in May 1988 at a cost of Rs.28 lakhs.

The Mine Winder Supervisory System procured was suitable for an electrical winder while the West Jhagrakhand Colliery was operating its winder on steam power; thus the system procured was not suitable for the colliery. The Colliery suggested (September/October 1988) the transfer of the system to some other mine operating an electrical winder so as to utilise the system gainfully.

The Management stated (September 1990) that the matter had been examined at the area and Headquarters levels and that the system was suitable for steam

winders also. The Management further stated (March 1994) that there was no intention to shift the equipment to any other area as CMPDIL was confident that they would be able to revive the system.

But the fact remains that even after six years (June 1994) of its purchase the system has not been commissioned/installed either at West Jhagrakhand Colliery or at any other colliery leading to blocking of, and loss of interest on, Rs.28 lakhs expended on the unutilised equipment.

The matter was reported to the Ministry in July 1994; their reply has not been received (December 1994).

WESTERN COALFIELDS LIMITED

4.11 Delay in installation of crushers

Western Coalfields Limited (Company) placed an order in July 1983 for supply of two crushers for installation in Coal Handling Plants (CHP) of Dhuptala Open Cast and Hindustan Lalpeth Projects. The crushers were received in December 1984 at a total cost of Rs.37.70 lakhs (including spares worth Rs.5.34 lakhs and freight of Rs.0.09 lakh). These could not be erected as the construction of the CHP could not be undertaken at either site on account of non-availability of land. It was subsequently decided to have a centralised CHP for a group of collieries to cope with the demand of despatches and as a result, the requirement for these crushers ceased to exist at these sites. The two crushers, received in December 1984 were transferred to Sasti Open Cast Project in January 1987 for installation at its CHP. The letter of intent for construction of the CHP at Sasti Open Cast Project was issued, however, only in January 1991 and the two crushers are still awaiting installation (October 1994).

The Management stated (July 1993) that these crushers were expected to be installed by October 1994. The Management further stated (November 1993) that two crushers if purchased now would cost around Rs.1.20 crores as against Rs.37.70 lakhs spent in December 1984 and as such financially there was no loss.

The Ministry endorsed (July 1994) the reply of the Management.

The reply of the Management/Ministry is not tenable as the cumulative value of Rs.37.70 lakhs spent in 1984 works out to Rs.1.65 crores (upto November 1993) taking interest at 18% per annum. Moreover the crushers lying idle since 1984 could not be as efficient as new ones.

Thus, due to improper planning regarding the construction of CHP at Dhuptala Open Cast and Hindustan Lalpeth Projects, the Company locked up funds amounting to Rs.37.70 lakhs for 10 years without any returns.

CHAPTER 5

MINISTRY OF COMMERCE

EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LIMITED

5.1 Payment of an inadmissible claim

The guidelines for Whole Turnover Packing Credit Guarantee(WTPCG) provide that if the name of an exporter is in the Specific Approval List (SAL) of the Corporation at the time of grant of advance by the bank, the bank should obtain the prior approval of the Corporation. Failure to obtain such approval is considered a serious lapse and the claim (of the bank against the Corporation in the event of default by the exporter) becomes inadmissible.

The Bombay branch of the State Bank of India sanctioned in September 1987 an adhoc packing credit (PC) limit of Rs.20 lakhs to an exporter whose name had already been included in SAL during February 1986, and reported the arrangement to the Corporation in October 1987 for obtaining WTPCG.

The bank paid advances to the exporter aggregating to Rs.20 lakhs between 14th and 23rd December 1987 against PC which was valid upto 10th December 1987 and was subsequently extended upto 31st March 1988. These payments were effected against hypothecation of stocks worth Rs.39 lakhs. However, the exporter did not make any shipments and enquiries by the bank revealed that the exporter had removed the hypothecated stocks and exported them under a different name. The bank communicated its notice of default to the Corporation in May 1988.

In October 1988, the bank preferred a claim with the Corporation under WTPCG. Between November 1988 and July 1989, the Corporation rejected the Bank's claim thrice on the ground that the bank had failed to obtain prior approval of the Corporation before disbursement of advances to the exporter since he was already in the SAL notified in February 1986 to all banks. The bank, however, contended in December 1988 that when the Corporation was informed in October

1987 about the sanction of the packing credit limit of Rs.20 lakhs to the exporter, it did not intimate the bank that the exporter was placed in the SAL. The bank further contended that had the Corporation responded to its letter of 28th October 1987, it would have been possible for the bank to stop further disbursement to the exporter.

In August 1991, the Corporation settled in full the bank's claim for Rs.13.33 lakhs (being 66.67 per cent of Rs.20 lakhs) on the ground that the bank had stated that it was not aware of the fact that the exporter was placed under SAL, and the case had otherwise been handled with prudence by the bank.

The Ministry stated in April 1994 that the bank did not obtain the prior approval of the Corporation for granting export credit advance even though the name of the exporter was appearing in SAL. This lapse was condoned by the Corporation in the interest of business development, since the bank was one of their largest banking customers paying a major share of premium over the years and receiving minimum claim amounts from the Corporation.

The fact remains that under the WTPCG guidelines when the name of the exporter was included in the SAL, and the relevant circular of the Corporation had been sent to SBI's Head Office advising them to obtain prior approval of the Corporation before granting any advances to the exporter, the failure of the bank to act accordingly should have been treated as a serious lapse and the claim declared inadmissible. The Corporation on its part also did not caution the bank when it was informed in October 1987 about the sanction of packing credit limit to the exporter.

Thus failure to follow the prescribed procedure in entertaining the WTPCG claim resulted in a loss of Rs.13.33 lakhs to the Corporation.

MMTC LIMITED

5.2 Non recovery of dues

The Company received an offer through the Embassy of a foreign country and entered into a contract with a Government Corporation of that country in January 1991 for the export of two lakh tonnes of wheat between February and

August 1991 on deferred credit basis at a price of US $ 118.50 per tonne. The contract stipulated that payment was to be made after 90 days to 170 days from the date of bill of lading by means of an irrevocable letter of credit drawn by the buyer in favour of the Company . Foreign Trade Bank and Ministry of Foreign Trade of the foreign country were to separately guarantee the payments. The contract also had a special clause in terms of which the Company agreed to examine the possibilities of purchasing HR coils and cement offered by the Government of the foreign country to partially set off the amounts due on account of wheat shipments.

The Company shipped 1.62 lakh tonnes of wheat valued at US$ 19.17 million in seven shipments between February and August 1991. It did not await the receipt of payments from the buyer on the due dates and instead got the bills in respect of five shipments valued at US$ 15.32 million discounted by the Overseas Branch of Canara Bank. Subsequently in August 1991, the Bank refused to discount the bills for the remaining two shipments on the ground that these were not accompanied by documents declaring the discharge port 15 days prior to the loading of the vessel, as stipulated in the contract. The Company advised the bank in September 1991 not to discount the bills.

After having failed to realise its dues for almost two years, the Company sought the assistance of the Ministry of External Affairs (MEA) in June 1993 but all in vain. Action, if any, taken by the Company on the barter offer was, however, not available on record.

Thus, the Company failed to safeguard its commercial interests and was saddled with the problem of realising from the foreign buyer its dues aggregating to Rs.15.77 crores (US$ 5.27 million) comprising the principal(US$ 3.85 million) and accumulated interest (US$ 1.42 million) at 12 per cent per annum as of August 31,1994.

The matter was referred to the Company and the Ministry in August 1994; their replies have not been received (December 1994).

5.3 Loss due to inadequate fumigation of wheat

During 1990-91, the Company entered into a contract with the Ministry of Supply (MOS) Jordan (importer) for export of 2 lakh tonnes of wheat at a price of US$ 115 per tonne. The contract stipulated that the wheat should be free from pests and insects and should conform to the phytosanitary regulations of the importing country. The shipments were to be effected in eight to ten lots of 20000 to 25000 tonnes each; the vessels were to be discharged at the average minimum rate of 3000 tonnes per weather working day.

In June 1991, the importer reported that the wheat shipped in Jag Manek was infested with live weevils and refused to take delivery of the consignment. After protracted discussions with the importer, the Company accepted the conditions proposed by the importer to the effect that (i) the Company would give a price reduction of US$ 10 per tonne if the wheat of the shipment was found unfit for human consumption, and (ii) the Company would bear the cost of refumigation and also pay the demurrage charges that had accrued as a result of delays in unloading the shipment at the discharge port.

Consequently, the Company had to forego Rs.38.03 lakhs, being the quality rebate given on the wheat shipped on Jag Manek. The importer also deducted demurrage charges aggregating to Rs.24.46 lakhs for that vessel. Besides, the Company had also to bear Rs.49.23 lakhs as demurrage charges in respect of two other vessels which could not discharge their cargo pending discharge of the stock carried by Jag Manek.

Failure to ensure adequate fumigation of the cargo prior to its shipment and to ensure its timely refumigation resulted in an avoidable loss of Rs.111.72 lakhs.

The Management stated (December 1994) that MMTC has disputed the amount of quality rebate as the importer could not give any documentary evidence to establish the actual quantity of wheat used as animal feed. The Management further stated that the calculation of the demurrage claimed had been disputed and

the final outcome of the matter which had been referred to an expert was awaited(December 1994).

The Management also stated that MMTC had taken more than normal precautions in ensuring quality of wheat and adequate supervision over loading operations including fumigation and that the fumigation was done by a qualified agency with sufficient margin to cover the voyage period.

Audit scrutiny revealed that the fumigation of the cargo initially was done in such a manner as to be effective only for eight to ten days, notwithstanding the fact that the Management themselves had anticipated that the period of the voyage up to the Jordan coast would be twelve days. Secondly, according to the contract, the discharge period itself was to be about seven days. Therefore, the Company should have ensured that the cargo was refumigated immediately on the expiry of the effective period of the first fumigant even if the delay in berthing was not anticipated.

The matter was referred to the Ministry in July 1994; their reply has not been received(December 1994).

5.4 Non recovery of increase in price

The Company contracted (April 1988) to sell 1000.575 tonnes of special high grade zinc to a firm in Andhra Pradesh between July 1988 and March 1989 at the monthly rate of 111.175 tonnes. In terms of the contract, allotment for a particular month was to be valid only till the last working day of that month and the buyer firm was required by then to make arrangements for the remittance of the notified sale price and complete other prescribed formalities. In the event, however, of the material being delivered or despatched in a month other than the month of allotment because of any lapse or default on the part of the buyer firm, or at its request, the price prevailing in the month of allotment or that applicable in the month of delivery, whichever was higher, was recoverable at the seller's discretion.

Of a total quantity of 504.548 tonnes of special high grade zinc allotted by the Company between July 1988 and March 1989, 351.075 tonnes were not lifted by the firm within the specified period of validity of the allotments. Delivery of that quantity was instead effected, at the request of the firm, only between August 1988 and May 1989 after delays of two to three months. The notified prices of special high grade zinc for the months of delivery were higher than those prevailing in the corresponding months of allotment. The Company, however, charged only the lower prices and failed (the reasons for which were not ascertainable from the records made available to Audit) to initiate action for the recovery of the difference in price. This resulted in non-recovery of a sum of Rs.23.26 lakhs as of July 1991.

The Management stated (March 1994) that the firm was requested to pay the amount (Rs.23.26 lakhs alongwith interest of Rs.1.76 lakhs) but the claim was not accepted by the buyer. They added that the possibility of recovering the dues through persuasion and discussions was being explored and that recourse to legal remedies would be considered if the firm continued to be unhelpful and intransigent.

The matter was pointed out initially by the internal audit unit of the Company in May 1989 and the Legal Cell of the Company had opined in July 1990 itself that the enhanced price and interest were legally enforceable. An independent opinion obtained in August 1990 from an external legal agency had also confirmed this position. Effective action to enforce the claim and to safeguard the interests of the Company had not, however, been taken even after the lapse of more than four years since the receipt of the legal advice.

The matter was referred to the Ministry in July 1994; their reply has not been received (December 1994).

5.5 Avoidable payment of demurrage

In terms of a contract, valid for a period of five years, entered into in October 1987 between the Company and a foreign corporation, the Company agreed to export a total quantity of 23 lakh tonnes of iron ore fines from Marmagoa Port. The contract envisaged a daily loading rate of 15000 tonnes in respect of vessels

nominated by the buyer. In the event of the Company failing to meet the specified loading requirements, demurrage at the rate of US$ 6000 per day was payable to the foreign corporation for the time lost after the expiry of the permissible laytime. The contract further provided that the tender of Notice of Readiness to load would be invalid if the buyer failed to establish a letter of credit not later than thirty days prior to the estimated date of arrival of the nominated vessel at the port of loading.

In April 1990, the foreign corporation nominated a vessel to load about 55000 tonnes of iron ore fines in laydays 28th April to 7th May 1990. The price for supplies during 1990-91 having been revised upwards in the meantime, the Company requested the buyer to furnish an amended letter of credit. Though this was not received, the Company accepted the Notice of Readiness tendered on Ist May 1990. By then, it could not also ensure the convergence of adequate quantities of iron ore fines of the stipulated specifications at the port to facilitate loading of the vessel. Further, the vessel which arrived at the port on 1st May 1990 could get a berth on 16th May 1990 because of bunching of vessels at the port. The loading of the ore was completed thereafter on 18th May 1990. In the meantime, the amended letter of credit had been received on 10th May 1990.

On account of the delay in loading the vessel beyond the permissible laytime, the foreign corporation claimed demurrage amounting to US $75637.50(Rs.23.44 lakhs) of which a claim of US $ 62533.33 (Rs.19.66 lakhs) was accepted by the Company. This could have been avoided had the Company accepted the Notice of Readiness only on receipt of the valid and proper letter of credit.

The Management stated (August 1993) that the Notice of Readiness was accepted as a "gesture of accommodation and co-operation" on being informed by the foreign corporation that the letter of credit, amended appropriately by its bankers in that country, was on its way. They added that the bunching of vessels at the port during May--which was generally the busiest period--and the delay in convergence of cargo, which was attributable to the inability of one of the Company's associates to supply the requisite parcel of iron ore for blending with

non-Goan ore, resulted in delayed loading of the vessel, which was beyond the control of the Company.

The Ministry endorsed the reply of the Management in September 1993.

5.6 Supply of wrong grade of iron ore

The Company entered into a contract with a Chinese firm in October 1992 for the export of 35,000 dry metric tonnes of low grade iron ore fines from Paradip port at a price of US$ 15.13 per metric tonne to be shipped during October-December 1992. The agreement stipulated that Notice of Readiness (NOR) to load was to be accepted only on receipt of a Letter of Credit (L/C) established by the buyers 30 days prior to the shipment; and lay time for loading was to commence 12 hours after acceptance of NOR.

In terms of the agreement the buyers established the L/C on November 3, 1992 indicating the date of expiry of L/C as December 22,1992. The Company informed (November 20,1992) the local agent of the buyer that the shipment would be effected in the lay days December 5-15, 1992 and asked for amendment of the L/C to extend date of shipment to 25th December 1992 and to extend the validity of the L/C upto January 10, 1993. Reasons for seeking amendment of the L/C were not on record, nor was the L/C amended.

The NOR was tendered on November 27, 1992 and was accepted by the Company's regional office on the same day with the stipulation that lay time would commence from December 5, 1992. However the regional office issued instructions to the Paradip Port Trust Authorities (PPTA) to load the ore into the ship without indicating the grade of fines to be loaded. PPTA commenced loading on November 27, 1992 and loaded 19621.583 tonnes of high grade iron ore by November 29, 1992 when the loading was completed.

On realising the error, the Company lodged a claim on PPTA in February 1993 for an amount of US$ 49053.96 (Rs.13.94 lakhs) representing the difference in value between the low grade ore that was required to be exported and the high grade ore actually exported, alleging that PPTA staff had not heeded the request of

the Company's officials while loading high grade ore into the vessel. The claim was rejected by PPTA in March 1993 stating that there was not even half the required quantity of low grade ore in stock and that the vessel was loaded only as per the written instructions of the Company.

The Company did not lodge any claim on the buyers for the amount of Rs.13.94 lakhs. Its claim on PPTA also appears to be half hearted considering that the amount was not treated as receivable in its accounts for the year 1993-94, on the grounds that the claim lodged with PPTA was neither fully justified nor legally tenable.

The loss sustained by the Company was prima facie due to negligence of the Company. Although the reason for seeking amendments in the L/C was not on record, it appears that the Company was not sure whether it would be in a position to arrange for sufficient quantity of the required grade of ore. The regional office admitted that there were lapses on the part of its staff posted at the port.

The matter was referred to the Management and the Ministry in November 1994, their replies are awaited (December 1994).

5.7 Loss due to non-revision of loading rates

The Company entered into an agreement in September 1979 with a State PSU, Mysore Minerals Limited (MML) for handling and loading iron ore into ships at Karwar and Belekeri ports. The agreement,initially for a period of three years, was extended periodically. While the handling (unloading, stacking etc.) charges payable to MML were increased from Rs.62.64 to Rs. 137.81 Per Metric Tonne(pmt) between 1979-80 and May 1992 no revision was made in the rate of loading iron ore into ships. The agreed rate of loading ranged between 3000 and 6000 long tonnes per day depending on the capacity of the vessels. In cases of a higher rate of loading, the Company agreed to pay "despatch" to MML at the rates specified in the sale contract with buyers. The rate of loading agreed to with German buyers who purchased most of the ore was, however, 8000 long tonnes per

day irrespective of the capacity of the vessel. Consequently, the Company had to pay considerable amounts as demurrage.

During the period form April 1988 to December 1991, MML handled 23 vessels at Karwar and Belekeri ports, and the Company incurred demurrage on 19 vessels amounting to Rs.98.61 lakhs. The Company paid Rs. 16.42 lakhs as "despatch" to MML for effecting higher rates of loading than provided in the agreement. The Company recovered Rs. 9.70 lakhs as demurrage from MML and Rs. 4.10 lakhs as "despatch" from the buyers resulting in an overall loss, sustained due to the difference in the loading rates agreed to with the foreign buyers and with MML, amounting to Rs.101.23 lakhs.

The Management stated (April 1994) that the loading rates were finalised taking into account the minimum facilities required to be maintained by the handling agents and the loading rate achievable therewith and that the handling charges would have to be increased in case the loading rate was to be increased . They also stated that demurrage at Belekeri was not only due to applying different loading rates but also due to bunching of some vessels on account of seasonal operation of the port. The Management felt that acceptance of a higher loading rate preferred by foreign buyers without compromise on sale price was one way of attracting foreign buyers although it would entail payment of demurrage. The Ministry endorsed (October 1994) the reply of the Management.

The contention of the Management is not tenable in view of the following:

- The Company did not invite tenders for appointment of handling agents for about 13 years and continued to entrust the work to MML as the sole agent. In doing so, the Company failed to generate a competitive environment which would have led MML to improve its operational efficiency.

- In March 1992, the Regional Office of the Company drew the attention of the Corporate Office to the disadvantages arising from the variation in the loading terms with MML vis-a-vis the provisions in the sale contracts with

buyers; the Management, however, extended the agreement upto March 1993, increasing the handling charges to Rs.155 pmt and keeping the loading rates unchanged.

According to the Company foreign buyers adjudge the different ports according to the loading rates that could be guaranteed. Had the Company revised the loading rates with MML upwards, it could have attracted more business to Karwar and Belekeri ports, without having to compromise on the sale price or to incur demurrage.

Thus, while the Company agreed to pay demurrage to foreign buyers with reference to loading rates mentioned in the relevant sale contracts, it could recover demurrage from MML only at a lesser loading rate specified in the agreement with MML.

5.8 Avoidable expenditure on imports

Based on the requirements conveyed by the Government of India, the Company was to import, in all, 23.35 lakh tonnes of Muriate of Potash (MOP) during 1991-92, of which 6 lakh tonnes were to be made available by June 1991. In February 1991, the Department of Economic Affairs made an `on account' foreign exchange allocation of Rs.1100 crores to the Company for the import of fertilisers, fertiliser raw materials and intermediates during 1991-92. The Company was also informed by the Department of Fertilisers that a commodity loan of DM 100 million made available by the Federal Republic of Germany during the calendar year 1991 should be utilised immediately for the purchase of MOP having regard to the low stock position of the fertiliser. The Ministry of Finance had also advised the Company that all out efforts should be made to utilise the loan expeditiously as otherwise it might be diverted for import of other commodities.

In February 1991, two German firms which were regular suppliers of MOP to the Company, had offered to supply 2.50 lakh +/-50,000 tonnes of MOP each against this loan at the firm price of DM 171 per tonne for shipments during March - December 1991. Based on the quoted price, the Company had assessed that

it would be possible to cover 5 to 6 lakh tonnes of MOP against the German commodity loan. However, the Company entered into contracts in February 1991 for the purchase of only 1.50 lakh tonnes +/-5 per cent from each of them and deferred the decision on the purchase of the remaining quantity to May 1991.

In April 1991, the contracts with the two firms were amended to provide for the purchase of an additional quantity of 1.30 lakh tonnes +/-5 per cent of MOP from each of them at an enhanced price of DM 181 per tonne, the entire quantity including that contracted earlier to be shipped between March and September 1991.

Between March and September 1991, the two firms shipped in all 5.71 lakh tonnes of MOP, and payments aggregating Rs.6933 lakhs were made to them in respect of 2.62 lakh tonnes of the fertiliser supplied at the enhanced price of DM 181 per tonne. Had the Company ab-initio availed of the offer of the two firms to supply the entire quantity at the firm price of DM 171 per tonne, an additional expenditure of Rs.383.06 lakhs incurred on the purchase of the additional quantity at an enhanced price could have been avoided.

The Management stated (May 1994) that imports of fertilisers are based on the specific requirements indicated by the Department of Fertilisers and that the purchases from each of the two German firms were initially restricted to only 1.5 lakh tonnes because (a) the Department of Fertilisers had projected a total requirement of only 6 lakh tonnes by June 1991, (b) priority was to be given for purchases from Rupee Payment Areas followed by purchases under grants and loans, (c) prices of MOP were settled on half-yearly basis according to international practice, and (d) one of the firms had offered shipments during March-December 1991. They added that the prices for the second half-yearly requirements were negotiated afresh in April 1991 subject to release of foreign exchange and on receipt of intimation from the Department of Fertilisers in regard to the requirements for that period.

No doubt, the Department of Fertilisers had projected a requirement of only 6 lakh tonnes of MOP by June 1991. However, it would have been commercially more prudent had the Company covered the additional quantity of

2.60 lakh tonnes ±5 per cent even ab-initio at the lower price in view of the following:

(a) The Department themselves had indicated a total requirement of 23.35 lakh tonnes for the year 1991-92.

(b) The Company was also aware that the German commodity loan was to be utilised immediately for the purchase of fertilisers and that the amount provided would be adequate to import 5 to 6 lakh tonnes of MOP. The availability of foreign exchange was also not a constraint since an `on account' allocation of Rs.1100 crores was made by the Department of Economic Affairs in February 1991 itself.

(c) One of the firms had also indicated that their cost of production had gone up as compared to the year 1990 and it would not be possible for them to reduce the price below DM 171 per tonne.

(d) Even in terms of the amendment to the contracts with the two firms, the entire quantity was to be shipped only during March-September 1991 and the contracts covering the second half yearly requirements were finalised only much later in August 1991 at a still higher price of DM 191 per tonne.

The matter was referred to the Ministry in August 1994; their reply has not been received(December 1994).

STATE TRADING CORPORATION OF INDIA LIMITED

5.9 Excess payment of house rent allowance

While revising the pay scales of Executives (below Board Level) of the Company in March 1991, (effective January 1, 1987) the Ministry of Commerce (MOC) fixed the amount of house rent allowance (HRA) to be paid to these employees at 30 per cent of their basic pay for Bombay and Delhi and between 10 per cent and 25 per cent for other cities (depending on their classification). This was subject to the concerned employees paying 10 per cent of their basic pay towards house rent. It was specified by the MOC that in case an employees could not

produce the rent receipt or the rent paid by him was either nominal or insignificant, he would be paid HRA at the indicated rates subject to an overall ceiling of Rs.1000 in `A' class cities and between Rs.300 and Rs.500 in respect of other cities.

It was observed in audit that, in violation of these instructions of the MOC, from January 1987 to December 1994 the Company paid to its employees amounts in excess of the ceiling of Rs.1000 although these employees had failed to produce rent receipts; this excess payment amounted to Rs.75.23 lakhs.

The Management stated (January 1994) that the Government of India had not accepted the Company's proposal in respect of HRA while conveying their sanction to the pay scales. The Management further stated that the then Chairman had in consultation with the then Director(Finance) agreed to the request of the STC Officers Association to continue the existing provision relating to HRA as no change had been made by MMTC whose scheme of HRA was similar to that of the Company.

The reply of the Management is not tenable as its action was in contravention of the Ministry's orders and without the latter's approval.

The matter was referred to the Ministry in November 1994; their reply has not been received (December 1994).

THE PROJECTS AND EQUIPMENT CORPORATION OF INDIA LIMITED

5.10 Loss in an export contract

In April 1989, the Company received an offer from a public limited company (CPT) for the export of 105 screw compressors, tools and accessories costing Rs.4.97 crores to a foreign buyer on deferred credit basis. The offer included payment of 5 per cent of the FOB value of the contract to the Company as commission. CPT stated that the Exim Bank had agreed to finance the contract upto

the full value of deferred credit subject to risk coverage by the Export Credit Guarantee Corporation of India Limited (ECGC) to be obtained by the Company.

The Company took up the matter with ECGC (May 1989) which, after initial reluctance, agreed (June 1989) to cover the exports under their specific shipments (political risks) policy with a reduced cover of 70 per cent of the deferred credit amount. Consequently, the Exim Bank agreed (June 1989) to extend credit support only to the extent of 85 per cent of the deferred credit amount at 7.5 per cent interest per annum, leaving the Company open to risk on the uncovered balance.

The Company thereafter accepted the offer of CPT and entered into a detailed agreement (December 1989) envisaging payment to CPT of 10 per cent of the value of the contract at sight against submission of documents, 76.5 per cent after acceptance of bills by the buyer and the balance 13.5 per cent on receipt of payment from the buyer. The Company also entered into a sale contract (August 1989) with the foreign buyer for the supply of compressors and spares costing Rs.5.13 crores, 10 per cent of which was to be paid against documents and the balance 90 per cent on deferred payment basis plus interest in 4 equal 6 monthly instalments. The equipment was to be supplied between January and March 1990.

The first consignment of compressors costing Rs.2.68 crores could, however, be despatched only in May 1990 as the buyer failed to arrange for ships on time. The Company received Rs.2.05 crores being 76.5 per cent deferred credit from Exim Bank in January 1991 and paid Rs.2.20 crores to CPT in August 1991, being 86.5 per cent of the value of the consignment, after deducting 5 per cent as its commission (Rs.10.27 lakhs)

After the despatch of first consignment in May 1990, 10 per cent advance payment (Rs.37.57 lakhs) was received late in April 1991 with interest. No payments were received thereafter from the buyer. The Company, therefore, suspended further shipments. In June 1992, the Company lodged a claim amounting to Rs.2.73 crores (90 per cent payment due on the consignment : Rs.2.41 crores; interest up to May 1992 : Rs.0.32 crore) with ECGC. ECGC,

however paid Rs.1.91 crores only in December 1992 being 70 per cent of the claim. The balance amount of Rs.0.82 crore due from the buyer was not realised (March 1994). The outstanding would increase further if the interest due after May 1992 is also taken into account.

The Management stated (August 1994) that at the time of signing of the contract with the buyer, the country of the buyer was not a high risk country and the problem of foreign exchange arose mainly due to disintegration of the erstwhile USSR. It was further stated that the contract from CPT was accepted in order to diversify and expand the markets for export and that the authorities of the buyer's country had assured repayment of the debt in due course. The Ministry endorsed(September 1994) the views of the Management.

The contention of the Management is not tenable in view of the following :

(i) The Company was aware right from the beginning that country of the buyer was a high risk country as its political situation was quite volatile during this period. The Company came to know in June 1989 itself that the country was passing through a difficult phase in its economy and that the position could improve or worsen depending on the prices of oil. Further, the fact that ECGC had agreed to provide only a reduced cover after the efforts made initially by CPT on its own to secure the necessary coverage had failed, should have also alerted the Company to the risks likely to be involved.

ii) Prior to accepting the offer of CPT, the Company did not ascertain the circumstances which had prompted the former to seek its co-operation suddenly in an area where it had hitherto been operating without such co-operation.

iii) Instead of assuming the role of a seller with the foreign buyer, the Company could have limited its responsibilities to that of a service rendering agency only.

In the circumstances, the acceptance of the offer of CPT and signing agreements/contract contrary to the spirit of the initial offer, was not commercially prudent. Had the Company taken into consideration the adverse factors, it could have avoided the loss in the transaction (Rs.34.30 lakhs) which would increase to Rs.93.85 lakhs if the unpaid interest due from the buyer upto October 1994 is also taken into account (Rs.59.55 lakhs). Though the Company has preferred a claim (May 1992) against the buyer in respect of the outstanding dues, alongwith penal interest of 18 per cent per annum, no amount had been paid by the latter as of October 1994.

5.11 Irregular payments to employees

In terms of the Bureau of Public Enterprises (BPE) guidelines issued in March 1984, introduction of incentive schemes or payment of honoraria or reward to the employees of public sector enterprises required prior approval of the Government. In its OM dated 11th September 1990 Department of Public Enterprises (DPE) reiterated its instructions that Public Enterprises should not make any payment in excess of the entitlement of their employees unless the amount is payable to them under an incentive scheme approved by the Government.

In violation of these instructions the Board of Directors of the Company approved in October 1990 the payment of Productivity Linked Reward (PLR) provisionally for the years 1987-88 and 1988-89 to its employees pending approval by the Government.

The Company took up the matter with the Ministry of Commerce in October 1990 for obtaining the approval of the Government for this scheme introduced with retrospective effect from 1987-88. DPE refused (October 1991 and February 1992) to accord approval to the scheme due to the violation of its instructions and stated that ex-post facto approval could be accorded only by the Cabinet Committee of Economic Affairs (CCEA). Adhoc payment of PLR for the year 1989-90 was also sanctioned by the Board in September 1992 on provisional basis disregarding once again the latest orders of DPE issued in August 1992 requiring the public sector enterprises to seek prior approval of the Government

before making such payments. An amount of Rs.8.81 lakhs was paid on this account.

The Board of Directors also approved in December 1991, September 1992 and September 1993 ex-gratia as special award the payment of Rs.2500 each for the years 1989-90 to 1992-93 to all those employees who were not eligible for bonus under the Payment of Bonus Act. An amount of Rs.16.56 lakhs was paid on this account . In September 1994 the Committee of Management sanctioned the ex-gratia payment of Rs.5.22 lakhs for the year 1993-94 pending approval by the Board/Government.

The Management in their reply (May 1993) stated that the PLR and ex-gratia payment was released to the employees on the lines of the State Trading Corporation of India Limited (STC), as the Company is an off-shoot of the latter. It was, however, admitted that payment was made subject to the approval of Government which was still awaited (October 1994).

The Ministry stated (October 1993) that a note for regularisation of the payment made by PEC & STC towards PLR was being submitted for consideration by CCEA. Decision of CCEA is still awaited (October 1994) in this regard.

As regards payment of ex-gratia, the Ministry stated (June 1993) that it could give its comments after DPE takes a decision in regard to STC.

PLR and ex-gratia payment of Rs.30.59 lakhs to the employees without obtaining prior approval of the Government was irregular and beyond the competence of the Board of Directors.

CHAPTER 6

MINISTRY OF COMMUNICATIONS

DEPARTMENT OF TELECOMMUNICATIONS

ITI Limited

6.1 Loss due to wrong billing

The Company supplied lightning arrestors to the Department of Telecommunications (DOT) and Mahanagar Telephone Nigam Limited (MTNL). For the supplies made by one of its units (Palakkad Unit) sets of 100 arrestors were billed as one arrestor during the years 1989-90 to 1992-93 and hence there was short billing and realisation by Rs.505.03 lakhs. This error was noticed by the Management only in April 1993 while analysing the difference in the rates quoted by two of its units for the supply of the same item.

Supplementary bills for Rs.397.25 lakhs towards basic price and Rs.107.78 lakhs towards excise duty, sales tax and freight were preferred (June 1993) to make good the short billing. The Company recovered Rs.493.35 lakhs by August 1994,while an amount of Rs.10.41 lakhs was adjusted by the customers towards liquidated damages.

The error in billing could have been found out earlier, if the cost of sales and sales realisation in respect of these items had been compared. This has resulted in locking up of funds amounting to Rs.505.03 lakhs for different periods and consequent loss of interest amounting to Rs.167.34 lakhs (calculated at an average rate of 16 per cent per annum) which was avoidable.

The Management stated (October 1994) that necessary instructions had been issued to all unit heads for non-recurrence of such mistakes in billing.

The matter was referred to the Ministry in March 1994. Their reply has not been received (November 1994).

6.2 Incorrect estimation of tax liabilities

The Company is an assessee under the Income Tax Act 1961 and is required to pay advance tax on current income in three instalments during the financial year. The estimate of current income made for the purpose of advance tax, should be accurate, as far as possible, subject to an allowed variation of 10 per cent. If the shortfall exceeds 10 per cent, interest is payable on the shortfall, at the rate of 2 per cent per month, from the commencement of the assessment year to the date of determination of total income on regular assessment.

Self assessment tax is required to be paid before filing the tax return, within 9 months of the end of the accounting year. If such payment falls short of the tax and the interest payable on the basis of the returns, the shortfall attracts interest at 2 per cent per month; however, no interest is paid by the Income Tax Department if the self assessment tax is in excess of the required tax payment.

Further, if the income declared in the return is less than that assessed by the Income Tax Department, an additional tax at 20 per cent on differential tax is payable under Section 143(1A).

A review of the Company's income estimates and tax payments for the period from 1989-90 to 1992-93 revealed the following:-

- The Company underestimated advance tax liability by Rs.328.39 lakhs (58%) in 1989-90, Rs.1542.61 lakhs (62%) in 1990-91, Rs.434.74 lakhs (21%) in 1991-92 and Rs.7868.92 lakhs (85%) in 1992-93, as a result of which the Company had to pay Rs.664.82 lakhs as interest to the Income Tax Department. This interest works out to be Rs.177.50 lakhs more than the interest that would have been payable if the Company had availed of cash credit for making good the shortfall.

- The Company consistently paid more tax at the time of self assessment, than warranted (by its tax returns filed subsequently) to the tune of Rs.146.76 lakhs, Rs.509.11 lakhs, Rs.67 lakhs and Rs.3645.47 lakhs for the years

1989-90, 1990-91, 1991-92 and 1992-93 respectively. On summary assessment by the Income Tax Department, the tax so paid turned out to be in excess by Rs.142.02 lakhs (24%), Rs.1003.07 lakhs (38%) and Rs.24.14 lakhs (1%) for financial years 1989-90, 1990-91 and 1991-92 respectively. As the refunds of such excess payments took considerable time, there was loss of interest to the Company on funds locked up in this manner; the loss of interest calculated at prevailing cash credit rates amounted to Rs.340.37 lakhs.

- As there were differences between income declared in the return and income assessed, the Company became liable to pay an additional tax of Rs.1.22 lakhs during 1990-91, Rs.3.24 lakhs in 1991-92 and Rs.613.79 lakhs in 1992-93. For 1992-93, the Company despite remitting the tax in excess of its self assessment to the tune of Rs.3645.47 lakhs, became liable to pay additional tax of Rs.613.79 lakhs due to disallowance of some inadmissible deductions in its return.

Thus, the Company's failure to estimate its tax liability properly at the time of payment of advance tax and self assessment tax for the same income periods led to a loss of interest of Rs.517.87 lakhs and also resulted in the levy of additional tax of Rs.618.25 lakhs which were both avoidable.

The matter was referred to the Company and Ministry in March 1994. Their replies have not been received (December 1994).

MAHANAGAR TELEPHONE NIGAM LIMITED

6.3 Damage to imported cables

The Department of Telecommunications (DOT) imported (August 1989) 375 kilometers of underground jelly-filled cables for Rs.960.36 lakhs for use by Mahanagar Telephone Nigam Limited (MTNL) Bombay.

The goods arrived at Bombay Port on 17.9.1989. A joint preliminary survey conducted on 5th October 1989 revealed that about 70 per cent of the cable drums were damaged.

The purchase contract required all the goods to be insured with the Oriental Insurance Company Limited, New Delhi. The insurance premium notice was issued by the insurance company on 28th August 1989 to the Assistant Engineer PCM Planning, External, of MTNL. The premium was required to be paid within 30 days of the date of bill of lading which was 14th August 1989. But the premium amounting to Rs.3.85 lakhs was paid by MTNL only on 4th October 1989 after obtaining a copy of the premium notice from the insurance company.

The Management lodged a claim for Rs.360.68 lakhs (after adjusting the value of useable cables) with the carriers (August 1990). The Management also lodged a claim against the insurance company in August 1990 which was rejected by them in October 1990, on the ground that the premium was not paid within 30 days of the attachment of the risk.

Thus, the claim against the carrier was not filed within the stipulated time (3 days of discharge of consignments from the ship) and there was a failure to deposit the insurance premium in time.

The Management stated (November 1993) that after payment of the premium the insurance policy was obtained. The claim had been taken up at the highest level with the insurer without positive result. The Management further stated that they have filed a suit (13.9.1990) against the carrier and insurer in the Bombay High Court.

The Management has not been able to explain the delay in depositing the premium and lodging the claim against the carrier.

The matter was referred to the Ministry in August, 1993; their reply has not been received (December 1994).

6.4 Delay in billing for telephone rent

The codal provisions made by Department of Telecommunications provide, in respect of guaranteed connections, that telephone rent has to be recovered annually for the entire guarantee period even if the facility is surrendered before the period expires. Further, for timely and accurate billings the Engineering Divisions are required to furnish, within a week of installation of facilities, the advice note to Accounts Section.

A test check of 5 per cent cases per quarter relating to 9 Telephone Revenue Zones during 1992-93 and 1993-94 revealed that in 11 cases bills had not been raised for such rent amounting to Rs.74.51 lakhs during the period from October 1987 to April 1994 for the unexpired period of guaranteed connections in case of premature surrender (2 cases) and for want of advice note from Engineering Divisions in the case of new connections (9 cases).

The Management admitted the omissions, took rectificatory action (September 1994) and recovered an amount of Rs.65.47 lakhs.

While Rs.65.47 lakhs were thus recovered at the instance of Audit, bills for Rs.0.62 lakh in one case is yet to be raised by MTNL and Rs.8.42 lakhs for which bills have been raised remain to be recovered.

The matter was reported to the Ministry in June 1994; their reply has not been received (December 1994).

CHAPTER 7

MINISTRY OF DEFENCE

DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

BHARAT DYNAMICS LIMITED

7.1 Locking up of funds

The Company received an order from the Defence Research and Development Laboratory, Hyderabad (DRDL) in May 1988 for supply by 2nd February 1989 of raw material for a certain project for Rs.67.45 lakhs. The order provided for the release of foreign exchange for imported items by the customer along with funds for opening of letters of credit.

The Company received an advance of Rs.7 lakhs in July 1988 . However for the imported items, the Company opened letters of credit and purchased sight drafts between June 1988 and April 1991 for a total amount of Rs.54.25 lakhs without obtaining the release of funds from DRDL. The imported items were received by the Company during the period from March 1989 to August 1991. The delivery date for completion of supplies was extended by DRDL upto 31st December 1992 due to modifications in the requirement of material. The Company raised an invoice in November 1992 for a net amount of Rs.60.60 lakhs, the payment of which was received from DRDL only in June 1994. This resulted in locking up of the Company's funds for periods ranging from 2 years 5 months to 5 years 9 months.

The Management stated in August 1993 that the advance was not claimed at the time of opening of the letters of credit as it was felt that actuals could be claimed after receipt of material.

The Ministry in its reply (September 1994), accepted the observations of Audit.

Thus, the failure to draw the advance for opening letters of credit though provided for in the supply order, resulted in locking up of the Company's funds to the extent of Rs.54.25 lakhs for considerable periods and consequential loss of interest (calculated at 15 percent per annum) amounting to Rs.35.07 lakhs.

BHARAT ELECTRONICS LIMITED

7.2 Avoidable import of Hinge Butts

The Company imported 1463 hinge butts in July 1989/March, 1990 at a cost of Rs.15.18 lakhs in connection with an order for 365 numbers of Line Repeater Housing. Hinge butts form one of the components of the housing. As the housing is made of aluminium casting and the Company did not have inhouse casting facilities it was decided to procure the casting from a sub-contractor. On receipt of the imported hinge butts they were found to be of size, type of construction and width of limb which made them unsuitable for use in the housing being manufactured by the sub-contractor. Consequently the hinge butts remained unutilised.

The Ministry while accepting that there was a lapse on the part of the Company in importing the hinge butts stated (October 1991) that the Company had been advised to utilise them elsewhere. However, the hinge butts have not been used so far (October 1994).

The Ministry further stated (October 1994) that in order to avoid occurrence of such cases in future, the computer software has been reprogrammed.

7.3 Delay in placing an order for Batteries

The Company quoted a rate of Rs.1150 per battery in response to Central Ordnance Depot (COD),Agra's enquiry of May,1990 for supply of lithium sulphur dioxide batteries. The quotation included a clause that if there were any fluctuations in the international exchange rates affecting the cost of procurement/production of materials, the Company reserved the right to revise the selling price accordingly.

COD accepted the quotation and placed a supply order on the Company for 760 batteries in August 1990 and 7356 batteries in October, 1990.

As the batteries were not in its regular line of production, the Company placed an order for 8300 batteries on a firm in Singapore in August 1991 i.e., after a delay of ten months. Assembly of these batteries was done locally through a sub-contractor.

The Company asked COD for a price revision in September 1991 stating that no imports of batteries could be made due to the Gulf crisis and non-availability of foreign exchange since the receipt of the indents. COD denied the price revision in October, 1991 stating that the orders were placed well before the Gulf crisis and that there was no provision for increase/decrease of price already contracted for unforeseen hikes/non availability of foreign exchange, etc. and hence the arbitrary increase sought in the price was not tenable and acceptable. The Company supplied the batteries in January and March 1992. The cost of sales worked out to Rs.1818 per unit against the selling price of Rs.1150 per unit resulting in a loss of Rs.54.21 lakhs which includes Rs.46.75 lakhs on account of exchange rate fluctuations.

The Ministry stated (April, 1994) that the unprecedented scarcity of foreign exchange resources in 1990-91 left the Company with no alternative but to prioritise the use of the scarce foreign exchange allocated to it by the Government and it was mainly because of this reason that the purchase order could not be placed on the foreign firm earlier. This does not explain why the Company accepted the supply orders, requiring supplies to be made between April 1991 and February 1992, without insisting on protection against exchange rate fluctuations.

Had the Company imported the batteries immediately on receipt of the supply orders from COD, the loss of Rs.46.75 lakhs on account of exchange rate fluctuations could have been avoided.

7.4 Avoidable payment of excise duty

The Company manufactures TV picture tubes and sells them either directly from the factory or through marketing centres located in different parts of the country. For the picture tubes rejected by the buyers and taken back to factory for rework and resale, the Company can claim refund of excise duty paid and pay duty afresh at the time of clearance after repair. In the alternative, the Company, instead of seeking refund at the time of bringing the picture tubes into the factory, can clear the repaired picture tubes without payment of duty after showing proof that duty had been paid at the time of initial clearance.

Test check by Audit revealed that during the four years ending 31st March 1992, the Company had not claimed refund of excise duty amounting to Rs.20.89 lakhs in respect of rejected tubes brought back to the factory for rework. The Company also paid duty a second time in respect of the picture tubes that were repaired and despatched.

The Management cited (December 1992) practical difficulties in bringing back the rejected picture tubes from distant marketing centres and in following the procedure for claiming refund prescribed in the Central Excise Rules.

The Ministry, while concurring with the Management's reply, stated (December 1993) that due to practical difficulties in correlating the rejected tubes to the original excise gate passes and making the claim within the specified time limit, the Company could not claim refund of excise duty or clear repaired goods without paying duty a second time.

The reply is not tenable as excise rules allow a maximum time of one year (from the date of their initial removal from the factory) for bringing the rejected tubes into the factory and claiming refund of excise duty paid or repair and despatch without payment of excise duty again. The Company also had the option of seeking extension of time, beyond one year; no such option had been exercised by the Company. The Company also had scope for producing collateral evidence to link the goods received to the original, in case documents to establish the duty paid

were not available, by making a suitable representation; the Company had not made any such representation. Further, during subsequent periods, the Company has been able to send repaired picture tubes out of the factory without payment of excise duty a second time, after Audit pointed out the lapse in this regard.

Thus, failure of the Company to avail of either of the two methods to avoid double payment of excise duty during the four years ending 31.3.1992 resulted in a loss of Rs.20.89 lakhs.

BHARAT EARTH MOVERS LIMITED

7.5 Non recovery of extra expenditure from a contractor

For constructing a "Heavy Fabrication Shop including 100 tonne Open Gantry" for producing walking draglines, the Company awarded the contract for construction of the hangar to Contractor A at an approximate cost of Rs.250.63 lakhs and the contract for the supply, erection and commissioning of 3 Cranes at a cost of Rs.87.17 lakhs to Contractor B in November 1989. While the construction work was in progress, the roof system collapsed on 30th April 1990. The fact finding committee appointed (May 1990) by the Company to investigate the collapse attributed it to the following reasons in its report (July,1990):-

i) improper erection procedure ;

ii)absence of temporary bracing system ; and

iii) bad workmanship and supervision.

Because of design changes the site had not been handed over to Contractor B for installation of 3 Cranes by 1st January,1990 as contracted. Subsequent to the collapse of the structure and delay in the completion of civil construction work, Contractor B demanded in October 1990 an additional amount of Rs.35 lakhs towards escalation. The Company terminated the contract (February 1992) with Contractor B after having forfeited his bank guarantee and other deposits adding up to Rs.3.51 lakhs in March 1992. The Company invited (April 1991) tenders for the

work from 5 Contractors (excluding Contractor B) and awarded the work to Contractor C at a negotiated price of Rs.132 lakhs in July 1991.

The agreement with Contractor A stipulated that in the event of the non-fulfilment by the contractor of the terms,agreements, obligations and conditions he would become liable to pay to the Company all consequential loss, damages, costs, charges and expenses as the Company may be directly or indirectly put to. As the collapse of the structure was due to the bad workmanship and improper erection procedure of Contractor A, he was liable to pay as compensation, the additional cost incurred in erecting the cranes. In December 1992, the structure was completed and put to use for production but the additional expenditure incurred by the Company was neither claimed from Contractor A nor was deducted from the contractor's bills. Thus, due to faulty construction work, retendering the work and failure to invoke the conditions of the contract, the Company incurred an additional expenditure of Rs.44.83 lakhs.

Meanwhile, Contractor A lodged (September 1991) a claim against the Company for Rs.70.35 lakhs towards cost of idle machinery and labourers, loss of profit, value of work done upto the date of the collapse of the structure and interest etc., which was rejected by the Company against whom Contractor A has then filed an arbitration suit in March 1992.

The Company stated that it did not want to precipitate matters by preferring a claim on contractor A for compensation for the extra expenditure incurred in cancelling the order on Contractor B and placement of order on Contractor C as any such action would have definitely added to the delay in construction of the hangar as the contractor was reluctant to complete the project in view of the steep increase in the cost of inputs.

The Ministry added (December 1993) that as the Company planned to make a counter claim against Contractor A it would be premature to treat the case as one of extra expenditure.

The Company's reply is not tenable because even after the completion of civil structure in December 1992, no attempt was made by the Company to claim the extra expenditure from Contractor A. The Ministry's reply does not explain the delay in making and pursuing the claim against Contractor A.

GARDEN REACH SHIPBUILDERS & ENGINEERS LIMITED

7.6 Acceptance of sales tax liability

In response to an invitation (January 1984) by National Thermal Power Corporation Limited (NTPC) for a price bid for Coal Handling Plant at Vindhyachal Super Thermal Power Project, the Company submitted (February 1984) a bid of Rs.2775 lakhs (plus customs duty of Rs.87 lakhs) which stated that sales tax was not applicable as per the statute ruling at that time, it being an indivisible works contract.

In March 1984 the Company confirmed that NTPC would not be liable to pay any CST/Sales Tax even if the contract awarded to the Company was not held to be a works contract or the law was amended, making the works contract liable to sales tax. The Company on 7th April 1984, accepted a consolidated reduced price of Rs.2753.93 lakhs for the project including all taxes and duties and confirmed that NTPC would have no liability whatsoever for taxes and duties. NTPC awarded the job to the Company on 7th April 1984 for a lumpsum contract price of Rs.2753.93 lakhs including all taxes, customs duties and levies etc.

The Madhya Pradesh (Sales Tax) Act, 1941 was amended from July 1984 which brought works contract within the purview of Sales Tax.

In April 1986 the Company requested NTPC to compensate it for the extra burden of Sales Tax, on the ground that the undertaking to cover future incidence of sales tax was a change in the conditions laid down in the notice inviting tender. NTPC declined as such compensation was not in conformity with the terms of contract.

The Management stated (December 1994) that keeping in view their unsatisfactory order book position and the cushion in the bid price they opted to get the order by accepting liabilities of sales tax if levied.

Thus, the unconditional acceptance by the Company to bear the sales tax liability in the event of the relevant Act being amended, resulted in an additional liability of Rs.174.05 lakhs out of which Rs.46.36 lakhs has already been paid and Rs.127.69 lakhs remains to be paid to the Sales Tax Authorities (October 1994). The acceptance of the uncertain liability resulted in reduction in profit on the order.

The matter was referred to the Ministry in October 1994, their reply is awaited (November 1994).

HINDUSTAN AERONAUTICS LIMITED

7.7 Loss of interest due to delayed claims

Hindustan Aeronautics Limited (HAL) received an order from Defence Research and Development Laboratory in April 1988 for fabrication and supply on cost plus basis of 10 sets of Air Frames. The order provided that HAL would prefer monthly claims on the basis of actual expenses incurred and charge a profit of 7.5% thereon. HAL however preferred claims at quarterly or longer intervals and in respect of some claims there was a time lag of over 6 months. The Management defended their practice of preferring claims on a quarterly instead of a monthly basis by contending that (i) in the concerned Division for logistic reasons and for ease of operation, the quarterly interval was chosen as the optimum period as the computer out-put which formed the basis for claims was received at quarterly intervals; (ii) there was no practice of maintaining monthly expenses and therefore no data to make the claims on monthly basis; and (iii) it would be difficult to monitor the claims on monthly basis as the claims were to be coordinated by several agencies.

The reasons advanced by the Management are not tenable as the Division gets monthly materials and labour cost figures in addition to the quarterly computer output.

Thus, due to lack of prompt billing, the Company sustained a loss of interest of Rs.15.48 lakhs (calculated at 18 per cent per annum) for the delay in preferring claims on the monthly average expenditure during the period from January 1988 till the completion of supply of the equipment in June 1991.

The Ministry stated (September 1994) that the Company had been advised to review its accounting system and carry out suitable modifications, if required, so that there is no such problem in the future and that the Company had advised all concerned to prefer claims within the agreed time frame in future.

7.8 Delay in claiming payments

Orders of the Ministry of Defence relating to overhaul of aeroengines entitled the Company to claim 60 per cent of Fixed Cost Quotation (FCQ), inclusive of profit, as soon as the engine is taken on the overhaul line, 35 per cent after the engine is signalled out by the Chief Resident Inspector and balance 5 per cent after the audit of the final invoice. Similarly, in respect of overhaul on cost plus basis, the Company is entitled to claim 50 per cent of estimated charges, or the approved cost estimates for the preceding year, on taking the engines on overhaul line, 40 per cent on proof of delivery of engine and the balance as well as admissible profit after verification of the overhaul cost by the Controller of Defence Accounts.

A review of invoices raised by the Division relating to repair/overhaul jobs undertaken for the Indian Air Force(IAF) revealed that for 13 engines taken on line between 1989-90 and 1992-93, the Division did not claim the first stage payments immediately after taking the engines on overhaul line and the second stage payments immediately after the signalling out/delivery of these engines. The delay in raising invoices in these 13 cases ranged between 46 days and 2116 days (after allowing a period of 30 days for raising the invoice).

The Management admitted the delay in making first stage claims and attributed the delay to non-receipt of "taken on line reports"from Production Engineering Department. The Management also stated that the delay in raising second stage claims was due to delay in forwarding of Form Q423's by IAF.

Similarly for engines of Indian Army taken on line for repair\overhaul during 1989-93, the Company preferred belated claims towards first stage payments for 77 engines and towards second stage payments for 112 engines. These delays ranged from 63 days to 696 days, after allowing a period of 30 days for raising the invoice. The Management admitted (July 1994) the delay in raising the invoices and stated that necessary steps would be taken to minimise such delays in future.

The Management contended that delay in submission of invoices has not resulted in any loss of interest to the Company as the realisation of invoices was subject to budgetary constraints of the customers (IAF/Army). The reply of the Management is not tenable as it totally ignores the time value of money. While reiterating the reply of the Management, the Ministry indicated (October 1994) that the Company had since taken effective measures to ensure timely realisation of funds.

Thus, delay in claiming payments from IAF and Army has resulted in delayed realisation of funds amounting to Rs.285.74 lakhs with consequential loss of interest of Rs.37.44 lakhs (at 15 per cent per annum) during the period 1989-90 to 1992-93.

7.9 Loss due to non-inclusion of escalation clause

The Costing Manual of the Company envisaged incorporation of an escalation clause in respect of material which remained to be purchased and ATF Oil while preparing the Fixed Cost Quotation (FCQ).

The Koraput Division of the Company while submitting in June 1991 the FCQ for the year 1991-92 to Air Headquarters had indicated the price of Aviation

Turbine Fuel (ATF) as Rs.10,157 per kilolitre (KL), but did not incorporate the escalation clause for ATF Oil. Government approved the FCQ in February 1992.

The price of ATF oil increased to Rs.12,115 per KL in July 1991 and to Rs.12,291 per KL in March 1992. The Division's request to Air Headquarters in January and February 1992 for reimbursement of the increased cost of ATF was turned down in July 1992 on the ground that an FCQ once finalised should not be reopened and that the matter should have been raised in July 1991 itself when there was an increase. Consequently, though ATF costing Rs.463.69 lakhs was utilised by the Company, it was reimbursed only Rs.432.28 lakhs.

The Ministry clarified in May 1994 that under the FCQ system insistence on an escalation clause is sometimes not acceptable to customers who consider it to be akin to a cost plus mechanism.

The Ministry's reply is not tenable as an escalation clause for imported material was incorporated in the FCQ for 1991-92 and escalation clauses for both material and ATF oil were incorporated in the FCQ for 1992-93.

Thus, failure to include an escalation clause for ATF oil in the FCQ for 1991-92 resulted in a loss of Rs.31.41 lakhs to the Company.

MISHRA DHATU NIGAM LIMITED

7.10 Loss in production and sale of an alloy

In response to an enquiry from a customer, the Company submitted in May 1989, a quotation for the supply of an alloy in hot rolled and cold rolled sheets, bars and flats of different sizes. In December 1989, the Company received two purchase orders from the customer for the supply of 5,300 Kgs. of alloy of different sizes for a total value of Rs.39.98 lakhs. At the time of tendering the Company anticipated a profit ranging between 1.63% and 4.5% over the estimated cost. The Company had acquired the technology only for cold rolled and not for hot rolled sheets of this alloy. However, the Company attempted to produce the hot rolled

products by developing the technology indigeneously based on past experience and by adopting a changed process route. When problems were encountered the Company sought the advice of an erstwhile collaborator (a foreign firm), but the yield suffered due to severe hot working problems of this difficult grade. As a result, the Company actually undertook 10 heats with low yields, as against the 5 heats assumed with an estimated yield rate ranging between 37.87% and 50.62%. The Company supplied 5,486.6 Kgs. of alloy valued at Rs.41.23 lakhs, during 1989-90 to 1992-93 against the scheduled delivery date of April 1990 and incurred a loss of Rs.27.94 lakhs. In addition, 2500 Kgs. of metal valued at Rs.8.95 lakhs was produced in excess without orders.

The Management stated (February 1994) that the Company receives several enquiries for a wide spectrum of special alloys - if such enquiries were rejected substantial business would be lost. The Company endeavored to develop various special alloys tailor made to customer requirements.

The Ministry in its reply (March 1994) while endorsing the reply of the Management, stated that the loss suffered by the Company was only Rs.10.72 lakhs after treating the cost of the two heats which cracked at the hot rolling stage, as developmental expenditure. It was further stated that incurring of such expenditure was not an uncommon feature in the execution of such prestigious orders and therefore, it was to be viewed as an investment for future potential orders which results in savings of precious foreign exchange.

The Ministry's contention that part of the loss was developmental expenditure is an after thought since this aspect was not specifically considered at the time of submitting the quotation or accepting the purchase order. Further, the Company had treated the purchase order as a regular commercial order. Moreover, no further orders have been received and the quantity of alloy produced in excess of the orders was lying unutilised since 1991-92 (December 1994).

Thus, the acceptance and execution of the order resulted in a loss of Rs.27.94 lakhs.

CHAPTER 8

DEPARTMENT OF ELECTRONICS

SEMICONDUCTOR COMPLEX LIMITED

8.1 Loss on disposal of salvage

On 7th February, 1989 there was a major fire in the Semiconductor Complex Limited(Company) which caused extensive damage to the buildings, plant & machinery, stock and stock-in-process. As these were covered by an insurance policy, a claim was lodged with the insurance company. It was jointly decided with the participation of the surveyors that the entire scrap should be sold off on "as-is-where- is basis" by calling for tenders. Accordingly, tenders were called by the Company on behalf of the insurance company, and after scrutiny of tenders and negotiations the offer of a tenderer from Mandi Gobindgarh was accepted. The Company collected Rs.55.22 lakhs as salvage value from the successful tenderer. On the basis of complaints in connection with the disposal of salvage an investigator was appointed by the insurance company who reported that the total amount recoverable for salvage was Rs.71.26 lakhs. His report indicated that the full amount receivable from the contractor was not received mainly due to improper classification of long plates of girders, A.C.ducting, MS Piping into lumpsum category instead of respective specific categories (the contractor having been allowed to cut long plates of girders into small pieces to be taken into lumpsum material category), and non maintenance of records of the lumpsum material.

The insurance company while settling the claim of the Company at Rs.4092.34 lakhs deducted an additional amount of Rs.16.04 lakhs for short realisation of salvage on the basis of the investigator's report which was not contested by the Company.

Thus, the Company suffered an avoidable loss of Rs.16.04 lakhs due to less realisation of salvage value .

The Ministry stated in January 1995 that the matter would be taken up by SCCL for payment of Rs.16.04 lakhs from the insurance company as soon as the investigator's report was received.

8.2 Supply of Electronic Circuit Blocks

Between 1987-88 and 1990-91 the Company supplied 28.84 lakhs Electronic Circuit Blocks (ECBs) for quartz analog watches to a customer.

According to the purchase order placed by the customer any increase/decrease in the landed cost of components due to change in the material price (FOB), variation in foreign exchange rate and change in customs duty or statutory levies was to be adjusted in the basic price of ECBs, as per mutual agreement.

The Company claimed Rs.44.83 lakhs from the customer by raising debit notes between February, 1989 and March, 1991 on account of price escalation due to fluctuations in exchange rate, etc. The customer however, rejected the claim (August, 1991) and refused to accept the debit notes mainly on the following grounds;

i) Factors leading to price escalation (change in F.O.B. value, custom duty and foreign exchange rate) were known to the Company at the time of supply of ECBs and the escalation, therefore, should have been reflected in the invoices; and

ii) Price escalation with retrospective effect after a gap of 2 to 3 years could not be recovered from their customers to whom the watches had already been sold.

In response to Audit the Company stated in July 1994 that the matter was being pursued with the customer to recover the amount; however no recovery has been effected so far (December 1994).

The matter was referred to the Management and the Ministry in September/October 1994; their replies are awaited (December 1994).

CHAPTER 9

MINISTRY OF FINANCE

(INSURANCE DIVISION)

NATIONAL INSURANCE COMPANY LIMITED

9.1 Undercharge of insurance premium

The guidelines for insurance of standing tea crops against hail damage (effective from 1.1.1983) stipulate that (i) the agreed valuation shall not be more than 70% and not less than 50% of the previous season's average price realised on the sale of made tea, and (ii) full premium based on the estimated crop should be collected in advance and the premium would be subject to adjustment on the basis of the final declaration to be submitted by the insured of the actual crop produced.

A Calcutta based Division of the Company, issued hail insurance cover to a tea trading company for their five tea gardens, two at Terrai/Doars region (West Bengal) and three at Dibrugarh (Assam) for the period 1985 to 1990-91. The Division while calculating the premium, used a valuation which was lower than 50% of the previous season's average price realised on the sale of made tea, with the result there was an undercharge of premium of Rs.12.77 lakhs.

After the undercharge had been pointed out by Audit the Division in March 1993 raised a bill on the insured for the amount undercharged. The Management, while admitting the facts, stated (July 1993) that the insured had refused to pay the amount, on the plea that the insurance contracts were conclusive and binding on both the parties, and there could not be any unilateral revision or variation of the terms either during the lifetime of the contract or at any time thereafter and in this case the contracts had run their course and have been completely extinguished.

The Government also accepted (March 1994) the facts and stated that the Company was being asked by General Insurance Corporation of India to take suitable and deterrent corrective measures in the matter.

Thus, failure to charge the correct premium during the currency of the policy has resulted in a loss of Rs.12.77 lakhs to the Company.

9.2 Incorrect application of insurance tariff

A Calcutta based Division of the Company issued a Marine Open Policy to a chemical company covering transit of benzene, aniline, nitrobenzene, etc. in lorry tanker against wider than basic cover for the period from 29.8.1985 and subsequently renewed it upto 29.8.1988, as a special declaration policy.

According to Marine Cargo Tariff, benzene is treated as an extra hazardous liquid cargo and the premium chargeable would be 0.50% (basic cover) plus 100% loading. Aniline and Nitrobenzene are to be rated at 0.50% being hazardous goods. Since the break up of the sum insured was not provided, the highest rate of 1.00% should have been charged . However, a rate of 0.50% only for basic cover was charged by the Division treating the cargo as not extra hazardous.

Turnover discount was also allowed during the period from 29.8.86 to 28.8.88 without referring it to the Regional Committee of Tariff Advisory Committee which is the authority competent to sanction the discount. A subsequent application made by the Division for sanction of turnover discount was turned down by the Regional Committee.

Thus, application of incorrect premium rates and unauthorised sanction of turnover discount resulted in a loss of premium of Rs.9.53 lakhs to the Company.

The matter was referred to the Management in May 1994 and to the Ministry in November 1994; their replies have not been received (November 1994).

9.3 Incorrect application of insurance tariff

According to Marine Cargo Tariff, all commodities having a flash point above 90°F and below 150°F are treated as hazardous goods and the rate of premium should be 0.50% (Basic cover plus 0.005% for wider cover). However, a Calcutta based Division of the Company issued a marine special declaration policy to a company covering transit of furnace oil, light diesel oil, etc. in lorry tanker against wider than basic cover plus Strike, Riot, Civil Commotion (SRCC) for the period from 20.12.1985 to 19.12.1986 and renewed it upto 19.12.1989 and the rate of premium charged for this policy by the Division was 0.30% treating transit of the liquid cargo as non-hazardous.

Further, the Tariff stipulates that a reference shall be made to the respective Regional Committee of Tariff Advisory Committee for sanction of turnover discount. However, turnover discount was allowed in this case by the Division without sanction of the Regional Committee. A subsequent application made by the Division for sanction of turnover discount was turned down by the Regional Committee as the risk was not eligible for special declaration policy due to incorrect rating of the risk.

Thus, due to application of incorrect premium rates and unauthorised sanction of turnover discount the Company suffered a loss of premium of Rs.14.16 lakhs.

The Ministry while admitting (February 1995) that there had been undercharge of premium, stated that the Company had calculated the undercharge to be Rs.3.27 lakhs. This calculation is not tenable as it is based on splitting the sum insured among the different commodities, which the insurant had not done.

Consequently, the highest rate applicable to any commodity became applicable to the entire sum insured. The Ministry added that the Company was issuing letters of caution to the erring employees.

9.4 Incorrect application of insurance tariff

Muzaffarpur Branch Office of the National Insurance Company Limited issued fire policies to Indian Drugs and Pharmaceuticals Limited covering their property in the factory at Muzaffarpur for the period from 1987-88 to 1989-90.

As the insured was engaged in production of basic drugs, as per tariff, fire premium should have been charged at 4.70 per mille. However, the Branch charged premium at 3.00 per mille for the underwriting years 1987-88 to 1989-90 resulting in an undercharge of premium of Rs.3.26 lakhs.

The Management stated in January 1993 that the premium was charged as suggested by the Risk Engineer. The reply of the Management is not tenable as the Company can not charge any rate lower than the tariff rate without breach of tariff. The Ministry while admitting the incorrect application of tariff that has led to undercharge of premium of Rs.3.26 lakhs stated (July 1994) that the Management had not been able to effect recovery from the insured since it was a sick Public Sector Unit. The Ministry also stated that General Insurance Corporation of India had advised the Management to take administrative action against the concerned officials for the incorrect application of tariff which led to loss of premium of Rs.3.26 lakhs.

9.5 Application of a special rate of premium

In accordance with the conditions governing special ratings laid down in the Workmen's Compensation Tariff, a special rate is to be fixed by the Sub-Committee of the Tariff Advisory Committee(TAC) in respect of any risk, the wages of which are estimated to exceed Rs.50,000 per annum.

A Calcutta based Division, of the Company issued a Workmen's Compensation Policy to a company covering the employees in one of its divisions for a sum insured of Rs.54,18,000 for the period from 1.4.1988 to 31.3.1989 charging a provisional premium of Rs.20,000. This policy was renewed during 1989-90.

Calcutta Regional Committee of TAC fixed a special rate of 27.25 per mille (February 1990) for the year 1988-89 and 15.10 per mille (April 1992) for 1989-90. But the difference of premium based on actual wages of Rs.1,19,11,000 for 1988-89 and Rs.1,56,91,000 for 1989-90 is yet to be realised.

Thus, incorrect application of special rates had resulted in a loss of premium of Rs.4.93 lakhs.

The Management while accepting the facts stated (March 1994) that the concerned Division had been advised to raise the premium bill immediately on the insured.

The matter was referred to the Ministry in March 1994; they replied (January 1995) that the Company was taking action to recover the amount undercharged eventhough the prospects of recovery appeared dim.

9.6 Undercharge of insurance premium

The All India Marine Cargo Tariff provides that policies granting a wider cover than basic plus SRCC should be referred to the Tariff Advisory Committee's Regional Committee for rating.

A Calcutta based Division of the Company issued a special declaration policy covering transit of BMT/TPA, MEG, packing materials, stores and spares, etc.to an insurant for the period 11.7.1988 to 30.6.1989 without indicating that the rates were "provisional". The Division referred the case in September 1988 for rating to the Calcutta Regional Committee which advised the Company in April 1989 to charge a rate of 2.78% for MEG and 1% for all other items with effect from 11.7.1988, in view of the high claim ratio of 231.50%. The Division, however, charged the premiums indicated in the policy i.e 0.51% for MEG, and 0.16% (including 0.01% for all risks) for all other items resulting in undercharge of premium to the extent of Rs.20.90 lakhs.

When this was pointed out in audit the Management raised a demand in March 1991 for Rs.20.90 lakhs on the insurant who refused to accept the demand,

as they were not informed by the Division at the time of issue of the policy that the rates quoted were subject to the claims experience and also subject to rating by the Regional Committee .

Thus, failure on the part of the Division to insist that the rates in the policy were provisional and to apply the rates recommended by CRC during the currency of the policy resulted in a loss of premium of Rs.20.90 lakhs to the Company.

The matter was referred to the Management by Audit in July 1992. The Management in an interim reply stated (September 1993) that the matter was taken up with the concerned Regional and Divisional office but no further reply has been received so far.

The matter was referred to the Ministry in February 1994; the Ministry stated (January 1995) that the decision of the Tariff Advisory Committee to whom the matter was referred was awaited.

9.7 Undercharge of insurance premium

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

A Calcutta based Division of the Company issued a Group Personal Accident Policy to a Public Sector Undertaking for the period from Ist April 1992 to 31st March 1993 at a premium rate of 3 per mille. While working out the average claim ratio of the insured, the Division did not take into account claims of Rs.21,26,765 outstanding as on 31st March 1992. This resulted in a loss of premium of Rs.9.68 lakhs.

The Management while admitting their inaccuracy stated that for 1991-92 claims figures for 9 months (Ist April 1991 to 31st December 1991) only were taken into account instead of the full year and the outstanding claims as on 31st March 1992 were also not considered. The Ministry in May 1994 stated that the loss of

premium was to the extent of Rs.4.12 lakhs only when the claim ratio is worked out on the basis of "actual liability".

The Ministry also stated that recovery of Rs.4.12 lakhs from the insured is being vigorously pursued by the Company.

The Ministry's reply is not tenable as calculation of the claim ratio is to be based on claims paid and claims outstanding at the end of the year. Thus, incorrect working of claim ratio has resulted in a loss of Rs.9.68 lakhs to the Company.

NEW INDIA ASSURANCE COMPANY LIMITED

9.8 Excess payment against an insurance policy

A Bombay based Division of the Company issued a Marine Hull Policy to a drilling company for the period from 1.7.90 to 30.6.1991 with a stipulation that the rate of exchange to be applied under the policy would be 1 US $= Rs.17.50

A claim arose due to the parting of a boom hoist wire line whilst unloading cargo from a supply vessel on 30.6.1991. While settling the claim, the Company applied the then prevailing rate of exchange instead of applying the rate of Rs.17.50 per US $ as stipulated in the policy. *This resulted in excess payment of Rs.19.14 lakhs.* To an audit enquiry the Division replied (October 1993) that the exchange rate indicated in the policy was for conversion of the sum insured and deductibles only.

The reply of the Division is not tenable since it was stipulated in the policy itself that all figures in US$ under the policy were to be exchanged at the rate of 1 US $ = Rs.17.50

The Ministry stated (January 1995) that there was a lacuna in the wording of the poloicy document which the Insurance Company, was taking action to correct, and contended that the settlement was in line with international practice. The reply of the Ministry is not tenable as the wording of the policy is very clear.

9.9 Incorrect application of insurance tariff

All India Fire Tariff provides that the rate chargeable for risks in multiple occupancy is the rate applicable to the highest rated portion(s) thereof unless the latter is segregated from the remainder of the premises.

A Division of the Company in Vasco covered a pelletisation plant from 1.7.1991 to 30.6.1992 without obtaining blockwise details of the risk by charging a basic rate of 1.03 per mille as against 2.03 per mille which was the rate applicable to the highest rated portion, with effect from 20.9.1991 when the plant became operational. The policy was also renewed from 1.7.1992 to 30.6.1993 charging a premium of 1.33 per mille. This resulted in an undercharge of premium of Rs.9.20 lakhs.

The Ministry in their reply (December 1994) stated that the highest rated portion was detached and that there was no undercharge in 1992-93. The reply of the Ministry is not tenable as the insured had not furnished blockwise details of sum assured.

Thus, incorrect application of premium rates resulted in an undercharge of premium of Rs.9.20 lakhs.

ORIENTAL INSURANCE COMPANY LIMITED

9.10 Incorrect application of insurance tariff

The Patna Division of the Company issued fire and allied perils (flood, storm, innundation, etc.) policies covering the assets of different units of two Thermal Power Stations (Power Stations Barauni and Patratu) of Bihar State Electricity Board for the period 1988-89. The plant and machinery of the power stations includes Coal Handling Plant also. The Company charged lower rates of premium than were applicable to Coal Handling Plant. When this was pointed out in April 1989 by Audit, the Company referred (October 1991) the matter to Calcutta Regional Committee of the Tariff Advisory Committee (TAC). TAC clarified in

November 1991 that the rate of 3.30 per mille was applicable for Coal Handling Plant. Thus, incorrect application of the tariff resulted in a loss of premium of Rs.3.86 lakhs (Power Station Barauni- Rs.0.61 lakh and Power Station Patratu-Rs.3.25 lakhs).

Further, the Division had also applied a lower rate of premium (0.25 per mille as against 0.50 and 2.50 per mille) in respect of allied perils which resulted in an undercharge of premium of Rs.5.14 lakhs (Power Station Barauni-Rs.2.21 lakhs and Power Station Patratu-Rs.2.93 lakhs). Thus, overall the Company suffered a loss of Rs.9 lakhs.

The matter was referred to the Ministry in February 1994; they replied (January 1995) that action was being taken to adjust the premium shortcharged from the pending claims of the insured. They also stated that action was being contemplated against the concerned officials.

9.11 Undercharge of insurance premium

A Bombay based Division of the Company issued fire policies to a company for 1991-92 and 1992-93 covering their stocks of Soyabean meal, de-oiled cakes of every description, etc. stored/lying in godowns/open sided sheds located in port areas of Bombay, Kandla and Jamnagar. The policy covered flood and allied perils also, for which the applicable premium rate was 10 per mille. The Division, however, charged only 1.25 per mille resulting in an undercharge of premium of Rs.5.45 lakhs.

The Management stated in February 1994 that the tariff rate circular had escaped their attention and the matter had been taken up with the clients for recovery of the difference in premium. Particulars of the recovery are awaited (October 1994).

The Ministry stated (October 1994) that the correct rates were not applied due to ambiguity in respect of classification of building as per TAC's circular dated

15th April 1991. This contention is not tenable as the policy covered open-sided sheds and the TAC's circular specifically mentioned open-sided sheds.

UNITED INDIA INSURANCE COMPANY LIMITED

9.12 Undercharge of insurance premium

A New Delhi based Division of the Company issued three separate Fire Policies `C' to a company covering buildings and plant and machinery for the period 1988-89 to 1991-92. One policy covered buildings in three blocks and the other two policies covered the plant and machinery installed in two blocks.

The Division approached the Delhi Regional Committee (DRC) of Tariff Advisory Committee for a special rating of the risk in August 1989 and again in November 1990. The requests were turned down by the DRC on the ground that (i) the application was not submitted within the stipulated time limit, and (ii) the insured was not eligible due to adverse claims experience. However, DRC after inspection allowed (July 1992 and October 1992) the special rate for one block with effect from 19th January 1991 and for other blocks from 26th October 1992. But the Division had charged a lesser rate of premium (which was less than the basic rate prescribed in the All India Fire Tariff) for all the blocks since inception of the policy which resulted in an undercharge of premium of Rs.1.77 lakhs.

The Ministry admitted (July 1994) the facts and stated that steps were being taken by the Company to recover the amount. Recovery particulars are still awaited (October 1994).

9.13 Excess settlement of a claim

As per the revised tariff provisions effective from Ist July 1986, the policy excess of 10 per cent of the claim amount subject to a minimum of Rs.15000 was to be deducted in respect of loss due to fire under storage-cum-erection policy.

The Divisional Office of the Company at Anand issued a storage-cum-erection policy to an engineering company for the period 27th October 1986 to 26th

December 1988 for a sum insured of Rs.2735.14 lakhs. The policy was extended upto 26th March 1990 and also covered the insured's surrounding property for Rs.30 crores.

The insured preferred a claim due to a fire that occurred on 6th January 1989, which was settled for Rs.175.61 lakhs after deducting Rs.15000 only as policy excess.

The Division had failed to incorporate the revised provision in the policy and as a result it had to settle the claim by deducting Rs.15000 only as policy excess.

When this was pointed out to the Company, the Company accepted the facts and stated that the mistake was committed involuntarily and that the claim was settled after obtaining legal opinion.

The Ministry while admitting (November 1994) that there was a lapse on the part of the Company in issuing the policy to the insured without incorporating the revised provisions, stated that the claim was settled after consulting the lawyers, who opined that deduction of excess at 10 per cent of claim would not be sustainable being outside the terms and conditions incorporated in the policy.

Thus, failure of the Company to incorporate the revised tariff provisions in the policy resulted in excess settlement of claim to the extent of Rs.17.43 lakhs.

CHAPTER 10

MINISTRY OF FOOD

CENTRAL WAREHOUSING CORPORATION

10.1 Delay in dehiring a warehouse

Central Warehousing Corporation (CWC) had hired a covered warehouse at New Bombay measuring 3059.86 sq. metres with effect from 9.4.1990 at a monthly rent of Rs.1,64,620. The lease was renewed for a further period of 11 months on the same terms and conditions till February, 1992 .

Due to certain amendments to the Customs Act in December 1991 which altered the terms and conditions for bonded warehousing of imported goods, the utilisation of the warehouse dropped to 40% in December 1991, 23% in January 1992 and 17% in February 1992. However, the Corporation continued to occupy the warehouse even after expiry of the lease period.

In March 1992, the utilisation dropped further to 6% and thereafter till August 1992 the warehouse was not utilised at all. The occupation of the warehouse was continued beyond February 1992 despite the fact that the owner had demanded 40% increase in rent , at a time when utilisation was almost nil. The warehouse was finally dehired on 19th August 1992.

Thus, the Corporation incurred an avoidable expenditure of Rs.12.93 lakhs on rent, establishment charges, insurance, fumigation, electricity and water charges for the period from 9th February 1992 to 19th August 1992. With an income of Rs.1.74 lakhs earned during the period, the total loss incurred by the Corporation due to the injudicious delay in dehiring was Rs.11.19 lakhs.

The Corporation stated in February 1994 that consequent upon the amendment of the Customs Act in December 1991, the utilisation of the godown came down. The Collector of Customs, Bombay was approached in March 1992 for

denotification of the godown under the Customs Act and the necessary denotification order was issued in May 1992. Thereafter, the Corporation applied for permission for conversion of the godown into an aggregation centre and stuffing station. The Customs Department turned down the request in June 1992 since sufficient export cargo was not available especially in the context of another export station having been set up by another public sector undertaking. The Ministry endorsed the reply of the Management (May 1994).

Had the Corporation prepared a comprehensive plan of action, and reacted immediately when the Customs Act was amended in December 1991 and when the utilisation of the warehouse had fallen quite low, instead of making piecemeal proposals, it could have avoided the loss of Rs.11.19 lakhs.

CHAPTER 11

MINISTRY OF FOOD PROCESSING INDUSTRIES

NORTH EASTERN REGIONAL AGRICULTURAL MARKETING CORPORATION LIMITED

11.1 Loss on an ill- conceived project

In November 1988 the Chairman-cum Managing Director of the Company decided that pineapple juice concentrate being produced at their Plant in Tripura should be sold as a ready to serve beverage in tetra -pack under the brand name `PINEAP' on the ground that there was lack of demand in the market for the concentrate, although the response to a advertisement for the sale of concentrate (June 1988) indicated that there was considerable demand for the concentrate. No market survey and cost- benefit analysis was conducted for the `PINEAP' product; even the prior approval of the Board of Directors was not obtained.

In December 1988, order for supply of packaging materials for 30 lakh packs was placed on Firm `A' at Rs.565 per thousand packs. Packing, forwarding, excise, sales tax and insurance charges were payable extra. In January 1989 two agreements were entered into with Firm `B' and Firm `C' for processing and packing of 42.5 lakh and 5 lakh packs of `PINEAP' respectively during the period from February 1989 to December 1989. The firms were to be paid 50 paise per pack for processing and packing. The cost of materials such as trays, dividers, shrinkfilm, straws etc. if procured by them were also to be reimbursed with service charges at one percent.

In March 1989 the product was launched in different parts of the country. Fourteen distributors were appointed for marketing the product and were allowed commissions varying from 14 percent to 40 percent. The Company incurred an expenditure of Rs.26.62 lakhs on advertisement. Although `PINEAP' produced by

31st March 1989 was only 11.62 lakh packs, the Company placed a repeat order for 30 lakh packs of packing material on Firm `A' in April 1989.

Out of 34.86 lakh packs of `PINEAP' produced up to August 1989 (when the Company suspended further processing due to accumulation of materials) only 26.77 lakh packs could be sold by the Company. The unsold balance of 8.09 lakh packs costing Rs.30.53 lakhs were written off as free samples and damages. Different parties also lodged claims amounting to Rs.67.19 lakhs against the Company for various services/supplies.

In this connection, the following points also deserve mention:-

- Distribution of free samples was done without the approval of the competent authority.
- No action was taken to recover excess consumption of packing and other materials valued at Rs.3.36 lakhs from Firms B and C.
- Packing materials valuing Rs. 14.30 lakhs were lying with suppliers/processors (December 1994).
- Very favourable payment terms (100 percent payment before despatch) were allowed to Firm`A'.
- One of the distributors at Delhi was allowed undue advantages such as supply of materials on credit, use of Company's hired godown without any charges and acceptance of the return of defective packs. Rent of godown hired from March 1989 to October 1989 amounted to Rs.3.20 lakh.
- Although the marketing of the product was entrusted to the distributors, the Company set up two branch offices in Delhi and Vijayawada. The expenditure of the branches for sales and sales promotion amounted to Rs.13.33 lakhs up to March 1990. No expenditure was incurred on sales promotion by these offices thereafter. The branch offices were closed in May 1990 (Vijayawada) and August 1994 (Delhi).

The Ministry stated (December 1993) that the project was accorded ex-post facto approval by the Board of Directors. It further stated that the introduction of `PINEAP' was a sound proposition but certain irregularities crept into the implementation of this venture which were being investigated for taking necessary action.

Thus, unplanned launching of `PINEAP' despite the favourable market response for the concentrates, resulted in a loss of Rs.72.88 lakhs (expenditure of Rs.131.55 lakhs less sales realisation of Rs. 58.67 lakhs). Besides, claims against the Company amounting to Rs.67.19 lakhs were still lying unsettled (December 1994).

CHAPTER 12

MINISTRY OF INDUSTRY

DEPARTMENT OF HEAVY INDUSTRY

BHARAT HEAVY ELECTRICALS LIMITED

12.1 Infructuous expenditure on Condensate Polishing Units

Bharat Heavy Electricals Limited (Company) awarded (September 1983) a contract to a foreign supplier for design, manufacture and supervision services for erection and commissioning of 3 Condensate Polishing Units (CPUs) to be delivered by April 1984 for its client NTPC at a cost of US $ 5.72 lakhs.

In accordance with the terms of the contract the Company paid US $ 4.88 lakhs (Rupees 64.24 lakhs) against shipments. The units were received at site in January/February 1985 but the inspection was carried out during August and October 1986. During the course of inspection certain parts were found damaged/missing. No formal claim was lodged with the supplier. The insurance claim lodged (November 1987) for damaged/missing parts was accepted partially for Rs.5.77 lakhs only. Subsequently, the Company also pointed out (June 1989) to the supplier that certain components were not functioning or were defective. The foreign supplier refused to own any responsibility for the loss as the guarantee period had already expired in October 1986.

Unit I was partially commissioned on 18th December 1987 but soon thereafter became unoperational, while the remaining two units remained uncommissioned for want of replacement of damaged/missing parts. On a request made by the Company the foreign supplier agreed (June 1992) to commission Units II and III and repair Unit I on release of their balance dues amounting to US $ 0.54 lakh and US $ 0.10 lakh due for commissioning of Unit I. However foreign exchange could not be got released from the Reserve Bank of India as the

Company could not give confirmation that all the contractual requirements had been met by the foreign supplier.

An Indian Company offered to supply the missing items and commission the units for Rs.150 lakhs (approx.) without any guarantee about the performance of the plant after repair/modification. The Management felt (November 1993) that since there would not be any guarantee that the units would be operative, they should arrive at a commercial settlement with the client who had threatened to impose a penalty of Rs.100 lakh for failure to commission the units. The units however could not be commissioned and no settlement had been reached with the client (December 1994).

The Management stated (January 1995) that the Company was exposed to such units for the first time and in the process of dealing with a new item/supplier, it did not meet the success anticipated. The reply is not tenable since the delay in inspection by the Company of the material received substantially contributed to the non-commissioning of the units.

Thus, an expenditure of Rs.61.22 lakhs (inclusive of customs duty and transportation charges less insurance claim realised) incurred on the procurement of CPUs has failed to serve any useful purpose due to their non-commissioning for nearly 10 years.

The matter was reported to the Ministry in October 1994; their reply has not been received (December, 1994).

12.2 Loss due to termination of a contract

In March 1984 the Company awarded a contract for application, testing and commissioning of refractory and insulation at Farakka Super Thermal Power Project for Rs.26.30 lakhs (approx.) to Contractor A. Contractor A completed only 142 tonnes in full and 71 tonnes in part (i.e. without sheeting) till May 1985 out of 2624 tonnes to be handled and informed the Company on 15th May 1985 that due to continuous low productivity and output of the labour force, they

would not be able to adhere to the targeted monthly erection programme and were left with no alternative but to surrender the balance portion of the work. Thereupon the Company terminated the contract forfeiting the security deposit of Rs.2.47 lakhs but without invoking the risk and cost clause.

The balance work was awarded to three different contractors in May 1985, September 1985 and April 1986 with staggered dates for commencement and completion of the work. Finally the balance work was completed at a cost of Rs.69.66 lakhs in November 1989.

After the matter was pointed out by Audit the Company called upon Contractor A on 16th December 1993 i.e. more than seven years after the termination of the contract to pay Rs.49.28 lakhs (including Rs.1.98 lakhs pertaining to another work) together with interest thereon within a fortnight, failing which legal action would be taken against them. No legal action has however, been initiated so far (June 1994) nor has the amount been recovered.

Thus, by termination of the contract without invoking the contract provisions relating to execution of the work at contractor's risk and cost at the time of termination, the Company incurred an avoidable extra expenditure of Rs.44.83 lakhs (after adjusting contractor's security deposit of Rs.2.47 lakhs).

The Ministry stated (February 1994) that the case regarding risk purchase clause against the contractor was being pursued.

12.3 Failure to obtain bank guarantees

In March 1987 the Company received a telex order from Oil and Natural Gas Commission (ONGC), Bombay for the supply, installation and commissioning of an Operator Training Simulator (OTS) for its off-shore process platform for a price of Rs.334.00 lakhs (Foreign exchange component : Rs.134.00 lakhs) for delivery and completion by September 1988. The order was to be executed by the Company along with a company of U.S.A. (Corporation).

The Company received Rs.31.71 lakhs as the first stage payment from ONGC against bank guarantee.

Accordingly the Company placed a purchase order in June 1987 on the Corporation for design, supply of system hardware/software and other related items of OTS for a price of US $ 1253000 FOB New York and in July 1987 paid US$ 187950 (Rs.24.63 lakhs) as an advance (15% of order value) to the Corporation after obtaining a bank guarantee valid upto December 1987. In September 1987 it paid US $ 313250 (Rs.40.87 lakhs) as a further advance (25% of order value) based on ONGC's general approval (August 1987) for the design philosophy presented (August 1987) by the Corporation, contrary to the terms of the purchase order requiring acceptance of drawings and system specifications by ONGC and their confirmation thereof.

Payment of the balance 60% of the value of the order was to be made in stages on shipment through an irrevocable letter of credit drawn in favour of the Corporation to be opened within 3-4 weeks of the receipt of the detailed list of material from the Corporation. In December 1987 the Corporation furnished the details of components for Customs and RBI purposes and a price listing for each major category and asked the Company to open the letter of credit. However the Company informed the Corporation in February 1988 that the list did not contain the required breakup of details of specifications, quantity and prices of all items under each category as required. The Corporation, on the other hand maintained that there was no deficiency in the breakdown information. The deadlock could not be resolved even after a joint meeting among BHEL, ONGC and the Corporation in February 1990 and ONGC encashed in January 1991 the bank guarantee of Rs.33.40 lakhs furnished by the Company.

The Company has treated the advance payment of Rs.65.50 lakhs to the Corporation as doubtful of recovery in its accounts for 1990-91.

The Company's efforts since November 1990 with ONGC for intervention in the matter to revive the project or to accept an indigenous supply as an alternative have also not been fruitful so far (December 1994).

The loss of Rs.65.50 lakhs has arisen due to failure to

a) insist on renewal of the bank guarantee for US $ 187950 (Rs.24.63 lakhs) beyond December 1987.

b) provide, in the purchase order, for a bank guarantee for the second advance of US $ 313250 (Rs.40.87 lakhs) and

c) specify, in clear terms in the purchase order, all the requisite details of information that would have to be furnished by the Corporation.

The Ministry stated (August 1993) that the payment of Rs.40.87 lakhs made to the Corporation in September 1987 was not an advance but was payable upon the acceptance of drawings and system specifications by ONGC and their confirmation thereof to BHEL. As such it was not considered necessary to stipulate a bank guarantee. The Ministry's contention is not tenable as (i) according to the purchase order the second payment was categorised as an advance payment only and therefore the payment should have been supported by a bank guarantee; and (ii) the payment was made upon general approval of the design philosophy which was not contemplated in the purchase order.

The hold up of the order continued (December 1994) in spite of several efforts by the Company to revive it as there was no positive response from ONGC. This had resulted in the entire amount of advance of Rs.65.50 lakhs becoming doubtful of recovery.

12.4 Application for change in electricity tariff category

The Tamil Nadu Electricity Board (TNEB) revised with effect from Ist April 1989 the tariff rates leviable on electrical energy supplied to various categories of consumers. The Magneto Hydro Dynamics Centre (MHD), being a research institute of BHEL was entitled to the concessional H.T. Tariff VI of the revised tariff rates. But MHD was continued to be charged even after March 1989 (upto February 1993) at the higher revised rates of H.T. tariff VII which was applicable for General Purpose, even though the Combined Cycle

Demonstration Project (CCDP), another research institute of the Company in the same complex, which applied for Tariff VI in May 1989 had been availing of the concessional H.T. Tariff VI from August 1989. The MHD Centre made an application for change from H.T. Tariff VII to H.T. Tariff VI only in April 1992 which was accepted by TNEB from March 1993, the date of signing a revised test report. Meanwhile the Company had to pay energy charges at the higher tariff rates from April 1989 to February 1993 amounting to Rs.25.36 lakhs.

The Management stated (March 1994) that the matter was again taken up with TNEB for re-consideration. Since TNEB had already stated that the change of category would be effected from the date of signing of the revised test report, the claim of the Management is not tenable.

Thus, due to delay of 3 years on the part of MHD Centre in applying for change from one tariff category to another after the revision of rates in 1989 resulted in payment of avoidable energy charges of Rs.25.36 lakhs.

The matter was reported to the Ministry in July 1994; their reply has not been received (December 1994).

12.5 Double payment of sales tax

Heavy Electrical Equipment Plant of the Company at Hardwar accounted for sales of Rs.3199.50 lakhs in 1991-92 by raising invoices of goods which were under process in the plant. Accordingly, it paid Rs.136.56 lakhs as Sales Tax (CST&UPST) on 28th April 1992. On this being pointed out by the Statutory Auditor, the sales were reduced by Rs.3199.50 lakhs by correctly treating the goods as work-in-progress. Subsequently, when the goods were actually despatched between July 1992 and March 1993 the Company again paid Rs.136.56 lakhs in February/March 1993 as Sales Tax. While submitting the revised Sales Tax Return on 29 March 1993 the Company applied for the refund of the amount as Sales Tax was paid twice.

The refund/adjustment of this excess payment would be made only when Sales Tax assessment for the year 1991-92 is completed. Sales Tax assessment of the Company has been completed upto 1989-90.

Meanwhile due to blocking of funds of Rs.136.56 lakhs, the Company is incurring a recurring loss of Rs.21.85 lakhs per annum being the interest at 16 per cent per annum on the blocked amount. The Company has already suffered a loss of interest of Rs.60.54 lakhs on this account till October 1994.

The management stated (January 1995) that the Company would not suffer any interest loss, if the Sales Tax liability pertaining to earlier years got reduced as a result of the adjustment of excess sales tax paid with effect from the date of actual payment. The contention is not tenable as no interest is receivable by the Company, on the amount deposited in April 1992, on the completion of Sales Tax assessment for the year 1991-92.

The matter was referred to the Ministry in October 1994 for their comments; their reply is awaited (January 1995).

BHARAT LEATHER CORPORATION LIMITED

12.6 Avoidable payment of interest

In March 1990, the Company received from the Government of India a Plan loan of Rs.47.50 lakhs with interest at 15% per annum (17.75% in the event of default in repayment) which was repayable in five annual instalments starting from March, 1991. The loan was for strengthening the Package Assistance Scheme and marketing net work and purchase of new moulds for Direct Injection Moulding Plant. The Company in March 1990 placed the funds in short-term deposits with a nationalised bank.

The funds remained unutilised and the Government of India asked the Company in June 1993 to refund the loan. However, the Board of Directors in its meeting on 26 June 1993 decided to retain the funds for one more month pending its decision on a proposal under consideration for utilisation of the funds

for expansion of the Package Assistance Scheme at Agra. The Company has neither refunded the loan amount nor taken a final decision regarding utilisation of the funds for the Package Assistance Scheme so far(November 1994).

The Management stated in June 1994 that the Company could not utilise the loan due to escalation in cost and change in the requirements of machinery and because the Board was yet to take a decision on expanding the Package Assistance Scheme.

The interest earned on the unutilised funds kept in short-term deposits upto November,1994 worked out to Rs.19.05 lakhs while the interest payable to Government of India on the Plan loan of Rs.47.50 lakhs amounted to Rs.54.64 lakhs upto November, 1994.

Thus, the Company suffered an avoidable loss of Rs.35.59 lakhs, being the difference between the interest payable to the Government and the interest earned on short term deposits.

The matter was referred to the Ministry in October, 1994; their response is awaited (December,1994).

DAMODAR CEMENT & SLAG LIMITED

12.7 Failure to commission wagon tippler system

The Company awarded three contracts for a wagon tippler system for handling and supply of clinker, the raw material for cement. The first contract was awarded in July 1986 for supply and installation of two link conveyor belts for wagon tippler and 13 other conveyor belts at a cost of Rs.54.28 lakhs to be completed by July 1987. The contract for civil work, including the civil work for the wagon tippler foundation and belt conveyor, was awarded in December 1986 at a total cost of Rs.61.48 lakhs which was to be completed in January 1988. The third contract was awarded in March 1987 at a firm price of Rs.95.12

lakhs for supply and commissioning the wagon tippler which was to be completed by March 1988.

The civil contractor stopped the foundation work of the wagon tippler and belt conveyor in October 1989 on the ground of non-payment of their dues and delay by the Company in taking decisions on extension of time, extra items, etc. The contractor resumed work in June 1990 and stopped again in August 1990. The work was ultimately completed through another contractor at a cost of Rs.1.66 lakhs at the risk and cost of the first contractor.

Similarly, the contractor for the belt conveyor supplied 13 of the other belts but did not supply the 2 conveyor belts meant for operation of the wagon tippler and left the work site in January 1990 due to non- payment of their dues and non-availability of work front. The Company issued notice for termination of the contract only in October 1993. The contract was neither actually terminated nor had the work been completed by the contractor. The Management stated (December 1994) that the contractor had since taken up the work.

The wagon tippler was supplied by the concerned contractor in August 1989 while the erection could be done only in December 1992 at a total cost of Rs.85.27 lakhs due to non-availability of work front and non-completion of civil work by the civil contractor. The wagon tippler could not be commissioned and put to use so far (December 1994) for want of 2 link conveyor belts.

The main project went into commercial production in October 1990, and the Company started receiving supply of clinker from September 1989. As the wagon tippler could not be commissioned the Company made alternative arrangements for unloading and transportation of clinker from railway yard to stock pile manually by appointing handling contractors on which an expenditure of Rs.65.12 lakhs was incurred during the period from September 1989 to November 1994. Expenditure on this account has also been continuing thereafter for want of the wagon tippler. This apart, there was loss of 3655 tonnes of

clinker valued at Rs.52.09 lakhs due to manual handling during the years 1989-90 to 1993-94.

The improper implementation of the work on wagon tippler system resulted in a loss of Rs.117.21 lakhs (upto November 1994) apart from blocking of funds in the unfinished wagon tippler system.

The Ministry stated (December 1994) that there was no loss to the Company in manual handling of the clinker and rather it helped in continuing the production. If clinker was not fed manually the production loss would have been more than the expenditure incurred due to manual handling. The handling cost of the clinker by manual means may be reduced after commissioning of the wagon tippler for which efforts were being made by the Company.

The contention of the Ministry is not acceptable as manual handling of the clinker had to be resorted to because of the Company's failure to commission so far (December 1994) the wagon tippler system which was erected in December 1992 at a total cost of Rs.85.27 lakhs.

HINDUSTAN CABLES LIMITED

12.8 Conversion of fuel oil handling and storage system

The Company was using imported furnace oil for manufacture of paper insulated coaxial cables being used by the Department of Telecommunication (DOT). Since the monthly requirement was exceeding 100 kilolitres, the Company in terms of directives issued by the Director General of Technical Development (DGTD) decided (September 1985) upon conversion of their oil handling and storage system to use Low Sulphur Heavy Stock (LSHS). The job was entrusted to another Public Sector Enterprise (December 1985) to be completed in December 1986 for Rs.54.60 lakhs.

In this connection the following points are of interest :-

1. DOT had been advising the Company since January 1978 to discontinue, in phases, supply of coaxial cables and switch over to manufacture of jelly filled cables. In December 1985 and July 1986 DOT informed the Company of curtailment of further orders of coaxial cables and also future discontinuance of the orders. The Company was asked to take immediate action to phase out manufacture of coaxial cables and to convert to jelly filled cables.

This aspect was ignored by the Company while going in for the LSHS system . DOT gradually reduced and finally stopped its orders for supply of coaxial cables. Production of this variety of cables, however, continued upto 1992-93 using imported fuel oil as usual thereby frustrating the purpose of the LSHS system.

2. The LSHS system was completed by the contractor in June 1988 at a total cost of Rs.59.47 lakhs including escalation. The full amount was paid by May 1992. The plant was not commissioned (January 1995) as in the meantime the Company realised that it had no scope to utilise the plant because DOT refused to take any further supply of coaxial cables.

3. As the entire expenditure was infructuous, the Company approached (May 1990) the contractor to dispose of the plant. The contractor offered (July 1990) Rs.14 lakhs as the sale value. The offer was not accepted.

The Management stated (April 1994) that the decision to go for the LSHS system was not unjustified as there was risk of stoppage of plant and loss of turnover if the conversion work was not taken up as procurement of furnace oil would have been difficult for want of clearance from DGTD. The Management further stated that the plant was not commissioned to avoid additional expenditure on power connection and other facilities as by then it became clear that no further orders in substantial quantity for the product for which it was intended would be forthcoming from DOT.

The Ministry considering the expenditure of Rs.59.47 lakhs as infructuous, instructed the Company (September 1994) to dispose of the plant.

The Company issued a tender notice in December 1994 inviting quotations to dispose of the plant, the outcome of which was awaited. The Ministry stated (December 1994) that it was monitoring the progress of disposal of the plant to reduce the loss.

12.9 Inadequate quality control

Department of Telecommunication (DOT) placed (February 1986) an order on the Company for supply of 500 tonnes of copper coated steel wire (CCSW) with nominal dia of 3.25 mm and of specified loop resistance (11.2 ohms per Km.) at Rs.50,304 per tonne plus excise duty and sales tax payable. The delivery was to be completed before June 1986. The material was, however, delivered between March 1986 and May 1987 for which extension of time was granted.

After most of the material was utilised, DOT noticed that the loop resistance was higher than specified because of which repeater spacing had to be reduced to 60 Kms against the intended spacing of 150 Kms involving higher cost for DOT. While 16 tonnes of unused material were returned for replacement, only 74 tonnes were found to be defect-free. DOT accordingly restricted payment to 40% of the agreed price and deducted Rs.199.63 lakhs from the claim of Rs.388 lakhs.

Preliminary studies by the Company and DOT revealed (March, 1987) that inadequacy of copper coating thickness on the steel wire was the possible cause for high resistance. The Company did not have any equipment for measuring copper coating thickness on the steel wire. It, therefore, sought the assistance of Central Electrochemical Research Institute, Tamil Nadu to solve the problem. This was, however, not followed up further.

The total cost of production of 500 tonnes of copper coated steel wire amounted to Rs.360 lakhs against which payment received was only Rs.188 lakhs. The Company thus sustained a loss of Rs.172 lakhs on the supply of

copper coated steel wire. Had the supply been as per specification the Company could have generated a profit of Rs.28 lakhs.

The Ministry stated (June 1993) that the CCSW supplied by the Company had been utilised by DOT in its repeater spacing of 60 KM and it satisfied DOT. Only about 16 tonnes was returned by DOT which was replaced free of cost by the Company.

The fact, however, remains that due to inadequate quality control measures the Company suffered a loss of Rs.172 lakhs in place of generating an expected profit of Rs.28 lakhs.

12.10 Injudicious import of materials

The Company received in November 1988 two orders from Metro Railway, Calcutta, one for supply of 5 Kms of 10 pair/1 mm dia and the other for supply of 3 Kms of 20 pair/1` mm dia flame retardant cable by June 1989 at a total price of Rs.20.80 lakhs. The Company entrusted the job to its Hyderabad Unit. The Company supplied 5 Kms of 10 pair cable to Metro Railway in October 1989. Doubts about the quality of the paired cables supplied were raised by Metro Railway in December 1989 and January 1990. The order for supply of 3 kms of 20 pair cable was cancelled by Metro Railway in April 1992 without assigning any reason. In the meantime, in anticipation of receipt of further orders for similar cables from Metro Railway, the Company had placed orders in August 1989 on a foreign firm for supply of 15 tonnes each of flame retardant polyethylene insulating and polyethylene jacketing materials at a total net CIF price of US $ 58,500 (Rs.9.65 lakhs) of which 13.85 tonnes of insulating and 13.38 tonnes of jacketing materials were received by the Company in January 1990 at a total net landed cost of Rs.30.88 lakhs. No fresh order for supply of cables was, however, received from Metro Railway (June 1994). The Company's Hyderabad Unit transferred in October 1990 5.90 tonnes of jacketing materials to the Rupnarainpur Unit leaving in stock a balance of 7.48 tonnes (June 1994) valued at Rs.10.94 lakhs. The Company could not utilise at

all 13.85 tonnes insulating materials valued at Rs.11.31 lakhs which were lying in stock since January, 1990.

The Management stated in June 1994 that the Rupnarainpur Unit had utilised 5.90 tonnes of jacketing material and the balance of 7.48 tonnes was expected to be utilised. It was also stated that 13.85 tonnes of insulating material would have to be disposed of if it could not be utilised for want of orders.

The fact remains that the Company imported the materials in the absence of confirmed orders from Metro Railway, which resulted in an infructuous expenditure of Rs.22.25 lakhs.

The Ministry added (December 1994) that the Company was being advised to review the policy of advance procurement action in anticipation of placement of orders by customers so that such loss is not incurred in future.

12.11 Avoidable payment of bond interest

99.4 tonnes of cable filling compound imported by the Company from USA were kept in a bonded warehouse at Madras Port from 12th May 1990 to 24th December 1991 (i.e.for 490 days), when it was cleared on payment of bond interest amounting to Rs.9.08 lakhs. Similarly, an amount of Rs.6.31 lakhs was also paid as bond interest on keeping another consignment of cable filling compound(99.94 tonnes) from 30th June 1990 to 12th February 1992 (i.e.for 448 days) at the bonded warehouse.

The Management stated in March 1994 that bonding had to be resorted to as adequate funds were not available, and even if the material had been cleared by drawing funds from its overdraft account, the Company would still have had to pay interest on the overdraft. The Management stated that the consignments were imported to meet export orders received which were short closed when production could not be achieved as planned.

The reply of the Management is not tenable in view of the fact that when consignments were placed in bond the Company had in its possession the advance

licence on which customs duty was not required to be paid and against which the material could have been cleared . Further, even though the two consignments continued to remain at the bonded warehouse, similar materials which arrived subsequently were cleared by the Company. No reasons for delay in clearance of the two consignments in question were on record.

Thus, delay in clearance of the material from Customs resulted in avoidable payment of bond interest amounting to Rs.15.39 lakhs.

The Ministry stated (December 1994) that the filling compound is used for non-export jelly filled cables as well and that, normally, status of all material lying at port/bonded warehouse are reviewed from time to time, whenever indent for fresh supply is received or the fund position improves.

HMT Limited

12.12 Non-recovery of customs duty from a supplier

For supply of components for manufacture of CNC Systems the Company placed purchase orders from time to time on a manufacturer of West Germany (SAG) which stipulated that the supplier should make free replacement of all rejections and shortages and reimburse any additional customs duty paid on such free replacements. Clause 9 of the commercial conditions attached to the Order Acceptance of SAG also specified free replacement on account of damages/losses (in excess of 10 per cent of the supplied quantity) and re-imbursement of customs duties upon presentation of Customs authorities' bill. Despite this commitment, the supplier did not reimburse Rs.12.59 lakhs being the customs duty paid by the Company on free replacements during the period 1989-90 to 1991-92.

Notwithstanding the clause in the purchase order, the Company and the supplier reached an understanding in March, 1992 that the supplier would supply the replacements/short supplied components and send the invoice and despatch

documents directly to HMT which need not pay the invoice value, but should take care of the customs requirements.

The Company paid a further sum of Rs.12.89 lakhs towards customs duty on the short supplied/replaced items during July 1992 to March 1993.

The Company while conceding that payment towards customs duty on free replacement during the period 1989-90 to 1991-92 was avoidable, stated (March 1993) that unless the short/wrong supplies were declared prior to customs clearance, it was not possible to get, subsequently, remission of duty.

The Ministry confirmed the quantum of duty paid on free replacements and stated (January 1994) that the condition about reimbursement of customs duty on replacement was not acceptable to SAG and that in one of the review meetings they made it clear that clause 9 of their commercial conditions to make good the additional customs duty paid by the importer on free replacements primarily referred to the supply of systems and not to components.

The reply of the Ministry is not acceptable in view of the fact that clause 9 of the commercial conditions attached to the Order Acceptance of SAG dated 29.11.1991 distinctly refers to their liability to bear the customs duty on components.

HEAVY ENGINEERING CORPORATION LIMITED

12.13 Production of sub-standard Ingot Moulds

In May, 1987 the Company accepted at a price of Rs.2.48 lakhs per piece an order to supply 50 pieces of R-21 type Ingot Moulds to Bokaro Steel Plant (BSL) which was increased by BSL to 280 pieces by March, 1989.

Out of the 280 pieces of Ingot moulds supplied by the Company 58 pieces were rejected by BSL due to premature failure as they did not sustain the

guaranteed heats. This fact was accepted by the Company also. The rejected moulds were retained by BSL at the agreed scrap value of Rs.51.04 lakhs in accordance with the terms of the supply order. Thus. the Company lost an income of Rs.92.80 lakhs due to supply of sub-standard moulds. The Management initially (May, 1994) attributed the premature failure to the heaviness of the ingot moulds which is not tenable as heaviness had no adverse impact on the other 222 moulds supplied against the order.

The Management in a later reply (July, 1994) stated that premature failure of ingot moulds was due to residual stresses present in the moulds on account of slight deviation in chemical composition and stress relieving practice. The Management also explained that the process constraints encountered during manufacture can induce variations in metallurgical structure which can cause residual stresses in the moulds. This reply is not tenable as the norms for rate of rejection are fixed after taking into account the kinds of exigencies mentioned by the Management. In the instant case, the actual rate of rejection was much higher (21%) than the laid down norm (8%).

The matter was referred to the Ministry in June, 1994; their reply has not been received (December, 1994).

12.14 Delay in placement of orders

The Company bagged an order from Vishakhapatnam Steel Project (VSP) in July 1983 for supplying two Double Column Plano Milling Machines alongwith optional accessories at a total sale price of Rs.147.64 lakhs with the delivery to be completed by July 1986 i.e. 36 months from the date of order. However, actual deliveries were completed by December, 1989 ie. after a delay of 41 months resulting in recovery of liquidated damages amounting to Rs.4.76 lakhs by the customer.

The Company incurred a direct cost of Rs.235.98 lakhs (including liquidated damages of Rs.4.76 lakhs) against the realised sale price of Rs.177.99

lakhs (including Rs.30.35 lakhs on account of escalation) resulting in a loss of Rs.57.99 lakhs (Rs.235.98 lakhs-Rs.177.99 lakhs) in the transaction.

The Management while admitting the loss stated in November 1993 that the loss was mainly due to payment of higher import duty, higher import content than agreed with VSP, rejection of castings and increased labour cost. They further stated that out of the import content of Rs.62.18 lakhs; Rs.30.35 lakhs could only be realised from VSP, Rs.24.01 lakhs was not paid by VSP as import duty was pegged by them at 55% as prevailing at the time of contractual delivery date against import duty at 90% paid by HEC. Another Rs 7.82 lakhs could also not be realised as the actual import content was 36% against 30% stipulated in the VSP order.

In this connection, it is pertinent to mention that the Management of the Corporation could place import orders concerning this transaction only between February 1985 to October, 1985,that is, after a lapse of 19 to 27 months from the date of order. This delay in finalisation of the import orders resulted in non-adherence to the delivery schedule leading to payment of higher customs duty of Rs.24.01 lakhs (not reimbursed by VSP) and escalated labour cost. Inaccurate assessment of import content by the Management resulted in a further loss of Rs.7.82 lakhs.

The Ministry stated in August, 1994 that delay occurred because the specification for import and indigenous supplies could be finalised by October, 1984 only due to substantial modification and changes to meet the requirements of VSP in the design documentation received from the Company's German collaborators.

The fact, however, remains that the Company failed to adhere to the agreed delivery schedule by 41 months resulting in a direct loss of Rs.57.99 lakhs.

12.15 Incorrect declaration of dutiable goods.

Heavy Engineering Corporation Limited (HEC) imported 641.889 tonnes of Hot Rolled Plates from Belgium through M/s.MMTC in four consignments between June and August, 1990 on high seas basis. These consignments were kept in bond and got released after paying customs duty in January and February, 1993.

Customs duty on the first two consignments weighing 292.127 tonnes and 142.944 tonnes was paid at 65% advalorem, while customs duty on the last two consignments weighing 141.932 tonnes and 65.886 tonnes was paid at Rs.3000 per tonne. This happened because HEC declared the goods incorrectly as Alloyed Steel Plates instead of Non-alloyed Steel Plates in the case of the first two consignments and the Customs authorities accepted the declaration made by HEC.

The incorrect declarations by HEC resulted in avoidable extra expenditure of Rs.35.88 lakhs. Further, HEC was unable to clear the goods within the prescribed time limit from bonded warehouse and had to pay Rs.15.92 lakhs, as interest on over paid customs duty.

After the matter was brought to notice by Audit (October 1993) HEC lodged one claim for refund of the over paid customs duty and interest thereon relating to the consignment of 292.127 tonnes, but this was done after the prescribed time limit of six months from the date of payment of customs duty and consequently, the claim was time-barred under the Customs Act. Thus, payment of customs duty due to incorrect declarations and failure to lodge the refund claim in time resulted in an avoidable extra payment of Rs.51.80 lakhs.

The Management attributed (January 1995) the overpayment to change in specifications by the supplier without their knowledge. The contention of the Management does not hold good as the specifications of the supplies were mentioned in the Bill of Lading and HEC should have declared the goods to the Customs authorities accordingly as was done in the case of later consignments.

The Management also stated that the case was being investigated for further remedial measures.

The matter was referred to the Ministry in May 1994; their reply has not been received(December 1994).

12.16 Incorrect estimation of material required.

M/s.Heavy Engineering Corporation Limited (HEC) secured a supply order from M/s.Birla Technical Services(BTS) in September, 1989 for the supply of 8 cranes; of different specifications: 2 hot metal charging cranes, 4 teeming cranes and 2 mixer charging cranes for a total firm sale price of Rs.2,220.57 lakhs with a delivery schedule between 35 months to 37 months (from March, 1989 to April 1992). The cranes were meant for use by Durgapur Steel Plant (DSP) which had entered into a contract for these cranes with BTS.

The contract stipulated that no adjustment in price would be allowed in case the actual weight of supplies exceeded the binding weight specified in the contract for these cranes. The Company estimated the requirement of material at 2,432.40 tonnes costing Rs.1378.42 lakhs for execution of the order.

In September, 1989, the Company submitted the drawings to the consultants of DSP for approval but they were not accepted as they were not prepared in accordance with the technical specification and operational requirements. Finally the drawings were changed and modified by March, 1990. As a result of changes and modifications in the drawings, the quantity of material required went up by 964 tonnes. The total material cost amounted to Rs.2668.28 lakhs in execution of this order, as booked in the cost sheet, as against the sale price of Rs.2,220.57 lakhs on completion of deliveries in May, 1993. Thus, due to incorrect estimation the Company could not even recover the material cost. In March, 1993, HEC lodged a claim with BTS for an additional Rs.1571.61 lakhs towards ex-works cost of the cranes.

The Ministry stated in September, 1994 that the extra claim by HEC on BTS would depend upon its acceptance by DSP and that the matter would be

pursued by HEC. It was also stated that through this order HEC acquired latest technology in crane design and manufacture and was able to utilise idle capacity.

The Ministry's contention does not hold good as the contract in question was between HEC and BTS and not with DSP and as per the terms of contract between HEC and BTS, the price was firm. Further, there was extra expenditure on material because of wrong estimates prepared without study of detailed drawings and requirement of detailed technical specifications. Also,the contract clearly stated "No adjustment of price shall be made if the total actual weight of supplies exceeds the net binding weight"

NATIONAL INSTRUMENTS LIMITED

12.17 Failure of Cartometer Project

The Company entered into a collaboration agreement in December 1987 with a foreign firm for transfer of technology and know how with necessary system software at a lumpsum fee of Rs.7.50 lakhs to manufacture cartometers.

It was envisaged in the project feasibility report that during the first five years, components for 430 cartometers would be imported from the collaborator and sold to Indian customers after assembly at a profit of Rs.214.64 lakhs and that such import would be phased out by 90 percent indigenisation during that period.

Total expenditure of Rs.25.37 lakhs was incurred by the Company upto 31st March 1993 on purchase of equipment, etc. for the project including the lumpsum fee of Rs.7.50 lakhs paid to the collaborator. Fifteen cartomaters in completely knocked down condition were procured (November 1988) from the collaborator at a landed cost of Rs.29.21 lakhs.

The Company, however, found (June 1990) that the associated software programme supplied by the collaborator was deficient and not suitable for Indian customers as it was inadequate to solve some basic problems of the customers engaged in survey work and also because the software programme was written in

an old version of Pascal limiting its flexibility. The matter was taken up with the collaborator who could neither solve the problem nor could the plotter which was

purchased on their recommendation at a price of Rs.4.92 lakhs be run for want of software. The Company in this situation, purchased (June 1990) indigenous software programmes and computers at a total cost of Rs.18.21 lakhs. Out of the 15 cartometers procured from the collaborator, only 9 fitted with indigenous computers could be sold at a price of Rs.37.26 lakhs upto July 1992 and the other 6 remained in stock (December 1994) due to absence of market demand.

The Management stated in August 1994 that cartometric digitizer had market potential in the country and the prospect of continuing the production to utilise the capacity was still valid . It further stated that prospect of disposal of 6 cartometers in stock still existed. The Ministry endorsed the reply of the Management (October 1994). The contention is not tenable as the foreign collaboration agreement was to expire in December 1994 but no manufacturing with indigenous components has started at the project (December 1994).

Thus, launching of the cartometer project without ascertaining correctly the specific requirement of the Indian customers after proper market survey, led to its failure. In addition, out of the total expenditure of Rs.77.71 lakhs incurred on the project the Company could recover only Rs.37.26 lakhs so far (December 1994) being the sale proceeds of 9 cartometers. The recovery of the balance amount of Rs.40.45 lakhs is uncertain.

SCOOTERS INDIA LIMITED

12.18 Loss on improper packing of scooters

In response to an export order (January 1992) received through HMT (International) Limited, the Company exported (June 1992) 240 Lambretta Scooters with standard accessories at a cost of US $ 87841 (FOB Bombay) to Turkey. According to the supply order, the scooters were to be packed in "sea worthy packing as per international standards". The Company packed the

scooters in containers (40' X 7') with 48 scooters in each container in two layers of 24 scooters each. While the scooters in the bottom layer of each container were packed in wooden crates, the scooters in the upper layer (120 in number) were tied with steel strips only. As a result 88 scooters were damaged to an unsaleable extent during transit from Bombay to Turkey.

As the scooters were not packed in accordance with the conditions stipulated in the purchase order, the customer did not lodge any damage claim with the insurance company and decided to send back the consignment to India. The Management considered the proposal to replace the scooters as uneconomical as it would have involved further expenditure on ocean freight, countervailing duty, port charges and transportation expenses, etc. Instead, spare parts and components valuing Rs.9.29 lakhs were supplied free of cost in March 1993 to the customer by the Company to compensate the loss.

The Management stated in July 1994 that scooters in the upper layer of the containers were tied with steel strips only instead of packing them in wooden crates with a view to save packing cost (Rs.0.44 lakh). The Ministry stated in November 1994 that corrective action had been taken and no such incident had been reported since then.

The fact, however, remains that the Company suffered a loss of Rs.9.29 lakhs (US $ 33177.46) as against a saving of Rs.0.44 lakh only on packing expenses due to defective/inadequate packing of scooters.

DEPARTMENT OF SMALL SCALE INDUSTRIES AND AGRO & RURAL INDUSTRIES

THE ANDAMAN AND NICOBAR ISLAND INTEGRATED DEVELOPMENT CORPORATION LIMITED (ANIIDCO)

12.19 Delay in leasing out a fishing vessel

A Taiwanese fishing vessel was confiscated by the Government of India. The vessel was gifted to the Andaman and Nicobar Administration (Administration) for their use by the Government of India in September 1987.

The Administration invited offers on May 1988 to lease the vessel. The highest bidder offered a licence fee of Rs.30 lakhs for the first 4 years. Noting that unless the ownership of the vessel was transferred to Andaman & Nicobar Island Integrated Development Corporation Limited (ANIIDCO) the lease money would have to be credited to the Consolidated Fund of India the Administration, in January 1989, assigned the vessel to ANIIDCO by way of sale for a token sum of one rupee.

ANIIDCO invited offers in February 1989 for leasing the vessel initially for a period of 2 years or for a longer period as may be mutually agreed upon. The bids were opened on 10th March 1989 but, in accordance with the tender form, the parties were found to have quoted for a five year lease period. The highest bidder offered Rs.35 lakhs for 5 years and in addition an estimated 10% catch profit of Rs.6.68 lakhs for 5 years adding up to Rs.41.68 lakhs.

Fresh tenders for a 5 year lease period were invited for the second time (June 1989) and third time (January 1990) but none responded. In the meantime the vessel, which was lying at Junglighat in a precarious condition, was damaged. The Board of Directors of the Corporation in their meeting held in February 1990 in order to recover the expenditure incurred on advertisement decided to scrap the vessel for which ANIIDCO sought the permission of the

Andaman & Nicobar Administration. The Administration decided to dispose of the vessel by auction, which was awaited (December 1994).

Thus, due to failure in arriving at a decision regarding acceptance of the lease offers, the Corporation could not lease the fishing vessel and ultimately lost a revenue of Rs.41.68 lakhs.

The Management replied (November 1994) that it had no previous experience and technical know-how in the line and no decision could be taken on the offers received due to certain lacunae. The Ministry endorsed (December 1994) the reply of the Management.

CHAPTER 13

MINISTRY OF MINES

BHARAT ALUMINIUM COMPANY LIMITED

13.1 Blocking of funds

For constructing 3 or 4 residential apartments for Directors, the Company purchased (December 1989) a plot of land in Delhi (564 Sq. yards with a built up portion comprising of a drawing-dining room, 2 bed rooms, kitchen, car-garage, etc.) at a cost of Rs.100.01 lakhs. It was estimated (January 1990) that the construction cost of these apartments would be Rs.40 lakhs and that the work would take a minimum of 2 years for completion. Although the possession of the plot was taken in March 1990, the Company has not initiated action for the construction of flats (October 1994) due to paucity of funds. The built up portion was allotted to one of the Directors in May 1990.

The Management stated in November 1994 that the Company was not in a position to finance the construction of flats on its own and at the same time could not afford the high financing cost of borrowed funds.

The acquisition of the plot was, therefore, injudicious and has resulted in blocking of funds to the tune of Rs.1 crore from December 1989 and consequent loss of interest of Rs.78.26 lakhs upto October 1994 (calculated at 16.5% per annum) after adjusting the expenditure towards lease rent (at Rs.5300 per month) which would have been required to be incurred by the Company for providing leased accommodation to the Director who was allotted the built up portion.

The Ministry in their reply of January 1995 endorsed the Management's statement that construction of apartments on the plot would be taken up at an appropriate time depending upon the availability of funds.

HINDUSTAN ZINC LIMITED

13.2 Avoidable expenditure in using HSD oil.

The Company commissioned three generating sets of 5 MW each, between June 1989 and April 1990, at a total cost of Rs.1081.79 lakhs. The manufacturer of the sets recommended the use of Low Sulphur Heavy Stock (LSHS) as fuel for running them. The infrastructure required for the use of LSHS (Heat Tracing System) was commissioned in April 1990 by the Company, at a cost of Rs.10.42 lakhs, without ascertaining the availability of LSHS.

Despite this, the Company used the more expensive HSD oil in running the generating sets, during the years 1990-91 to 1992-93. The avoidable expenditure in using HSD oil instead of the recommended LSHS oil, amounted to Rs.392.13 lakhs. Further, the Heat Tracing System, procured at a cost of Rs.10.42 lakhs, remained idle.

The Management stated in September 1994 that though arrangements had been made to shift the system of operation from HSD oil to LSHS, they had no option but to use HSD oil in the generating sets, due to the non-availability of LSHS.

The reply is not tenable in view of the fact that Hindustan Petroleum Corporation Limited (HPCL) had intimated to the Company in July 1991 that LSHS would be supplied only if the use of LSHS oil in generators was mandatory. The Company was also requested to furnish the recommendations of the engine maker stipulating the use of LSHS only as a fuel. However the Company neither furnished the information nor pursued the matter with HPCL any further.

Further HPCL Visakhapatnam had laid a pipeline from the HPCL terminal at Visakhapatnam to the Visakhapatnam Steel Plant (VSP) for supply of LSHS to VSP, passing through the premises of the Company. HPCL contemplated providing a suitable tap off point on the proposed pipeline for the supply of LSHS to the captive power plant of the Company.

Thus although;

- the manufacturer of the generating sets had recommended the use of LSHS as theoperational fuel

- HPCL had intimated that LSHS could be supplied by them, and

- the necessary infrastructure (Heat Tracing System) required had also been created;

the Company used the more expensive HSD oil thereby incurring an avoidable expenditure of Rs.392.13 lakhs.

The matter was referred to the Ministry in July 1994; their reply has not been received (December 1994).

13.3 Loss due to lacunae in work orders

Results of five trial work orders issued (November 1989 to January 1990) for the conversion of Lead Metal Dross into Hard Lead Blocks, indicated that 85% of lead and 80% of silver content available in the Metal Dross could be recovered. In the subsequent fresh work orders issued by the Company from July 1990 to November 1990 to 9 parties, the contractors were required to guarantee these rates of recovery; in the event of any shortfall in the recovery of lead, a penalty upto double the market rate could be levied.

The requirement of a guarantee was, however, not incorporated in the extension work orders issued (November 1990) to two out of the five parties. Thus, although there was short recovery of 92.96 tonnes of lead valuing Rs.29.81 lakhs in these two cases, no penalties could be levied.

As regards silver, although all the fourteen contractors, were required to guarantee 80% recovery of silver, the contracts did not provide for any remedy for shortfalls by way of a penalty leviable by the Company. A shortfall in the recovery of 1365.33 Kgs. of Silver valuing Rs.95.86 lakhs was noticed in respect of Metal Dross converted into Hard Lead Blocks, during August 1990 to June 1992.

Thus, the Company suffered a loss amounting to Rs.125.67 lakhs due to the non-inclusion of a guarantee clause in the first case and the non-provision of a suitable enabling penalty clause in the second case.

The Ministry stated in July 1994 that no penalty for shortfall in the guaranteed minimum of silver could be incorporated, as it was not feasible to isolate silver from Hard Lead while converting Dross into Hard Lead. The Ministry further stated that if the penalty clause was to be applied to the two parties for any shortfall in recovery of lead, the contractors would have to be paid Rs.7,000 per tonne as demanded by them which would be disadvantageous to the Company.

The reply of the Ministry is not tenable, in the context of the analysis by the Company (February 1990) that silver and lead at 80% and 85% respectively, could be isolated at the appropriate stages of processing. Further when subsequent work orders were placed in July 1991 on the same two parties, the parties had agreed to execute the work at Rs.5000 per tonne while guaranteeing at the same time, a minimum recovery of 85% of lead. They had also agreed to pay the penalty in the event of any shortfall.

In addition, in respect of the guaranteed recovery of silver the Company incorporated a clause in the work orders (February 1994) providing for recovery at Rs.5,000 per Kg in case of any shortfall in recovery of the guaranteed minimum.

NATIONAL ALUMINIUM COMPANY LIMITED

13.4 Handling and transportation of aluminium

In December 1988 the Company, without inviting any tender, engaged its existing contractor Firm `A' for 4 months from December 1988 to March 1989 at Rs.110 per tonne for handling and transportation of 11,000 tonnes of aluminium ingots meant for export.

On 10th April 1989 the Company invited open tenders to enter into a rate contract for one year for the handling and transportation of aluminium ingots and

wire rods. Seven offers were received with a validity period of 4 months. After a lapse of 3 months, technical discussions were held with the parties and finally on 23rd August 1989, 4 parties were found suitable, including Firm `A' with quoted price of Rs.110 per tonne. On opening of price bids on 24th August 1989, Firm `B' was found to be the lowest bidder with the original quoted price of Rs.72 per tonne. The rate was subsequently increased to Rs.90 per tonne due to enhancement in the rates of different duties and fees by the Government of West Bengal under the new Motor Vehicles Act, 1988 effective from Ist July 1989. The rate contract at Rs.90 per tonne was finalised with Firm `B' in September 1989 for a period of one year with effect from 6th September 1989. Owing to the delay in finalising the rate contract, the contract with Firm `A' which had expired on 31st March 1989 was extended upto 5th September 1989. The total quantity handled by Firm `A' was 23141.132 tonnes between Ist December 1988 and 5th September 1989.

The Ministry stated (January 1994) that the Company appointed Firm `A' which were earlier appointed by another Public Sector Undertaking under their administrative control after following the tender procedure, as an emergent measure to keep the deadline of 31.3.1989 for their first export order of 15000 tonnes of aluminium. It was also stated that the second export order of 3000 tonnes which was approved by Government in March 1989 was to be executed by May, 1989.

The fact, however, remains that the operation of handling and transportation of aluminium ingots on a single quotation without inviting open tenders and delay in finalisation of the contract based on open tenders resulted in an avoidable extra expenditure of Rs.8.30 lakhs to the Company.

13.5 Delay in processing a sale order

In January 1993 the Company invited quotations from seven overseas buyers for sale of 5000 tonnes of ingots and 7000 tonnes of sows. The last date for receipt of offers was 4th February, 1993. Out of five offers received, the offer of a UK firm (received on 10th February 1993) for purchase of 3000 tonnes of ingots and 3000 tonnes of sows at a uniform LME settlement price of US $ 1172.50 per tonne, valid till 10.00 hours on the same day, was considered by the Company to be

the best offer. The proposal for acceptance of the offer was submitted to the Standing Committee of the Company only on 24th February 1993 after 14 days of the expiry of its validity. The Standing Committee approved the proposal on the same date and it was communicated to the firm on 25th February 1993. The firm did not accept it as the validity of the offer had expired and submitted a revised offer on 25th February 1993 to purchase 3000 tonnes of ingots at original price of US $ 1172.50 per tonne and 3000 tonnes of sows at future LME cash settlement price during Ist to 10th March 1993 (which later on worked out to US $ 1115.13 per tonne). This was accepted by the Company. As a result the Company lost US $ 1,72,110 (Rs.54.21 lakhs) due to reduction in the sale price of sows.

The Ministry stated (October 1994) that the original offer was valid for a short period and therefore, it was practically impossible to accept the offer. The Management stated (June, 1994) that the particular sale required approval of the Standing Committee wherein two Government nominee directors were also members and therefore, it was not possible to hold a meeting of the Standing Committee at short notice.

Shipment of the material was due to commence from February 1993 and was to be completed by May 1993. Supply commenced from March 1993 and was concluded in July 1993. 1000 tonnes of ingots due for shipment to Nagoya were actually shipped to Singapore and 1000 tonnes of sows were actually shipped to Nagoya instead of Yokohama. As a result the Company had to incur an additional expenditure amounting to US $ 44,000 (Rs.13.86 lakhs).

The Management stated (August 1993) that the delay in supply was due to the diversion of a large portion of the material to the domestic market during March-April 1993. The Management also stated (June, 1994) that the diversions of material to ports other than those nominated by the buyer were due to non-availability of ships.

The buyer claimed from time to time till December 1993 an amount of US $ 3 lakhs (Rs.94.50 lakhs) due to supply of contaminated and substandard materials, delay in supply of material and documents causing delay in clearance of the

materials from port involving storage charges. The buyer deducted from the Company's dues an amount of Rs.94.50 lakhs pending settlement of their claims (December 1994).

Regarding the delay in presentation of shipping documents, the Ministry stated (October, 1994) that had the buyer indicated to the Company the discrepancies in documents in time, the storage charges to the buyers could have been avoided.

However, the fact remains that the Company incurred a loss of Rs.68.07 lakhs on the sale of the materials due to initial delay in processing the sale order and then changing the route for delivery of the material. The loss will increase after the settlement of the pending claims of the buyer amounting to Rs.94.50 lakhs.

CHAPTER 14

MINISTRY OF PETROLEUM AND NATURAL GAS

Bharat Petroleum Corporation Limited

14.1 Extra expenditure on LPG Plant

Bharat Petroleum Corporation Limited (BPCL) proposed conventional leg-supported type LPG spheres at Uran and appointed M/s. Cemindia Limited (Cemindia) to carry out soil investigation at the site in April 1985. BPCL changed the design in July 1986 from the original conventional leg-supported type to the Buss support system on safety considerations and for its suitability for use on enriched weaker soils. BPCL decided to adopt the vibro stone column technique for soil enrichment after Cemindia had assured BPCL that the soil enriched with this technique would achieve a safe bearing capacity of 25 t/m2. The soil enrichment work was also awarded to Cemindia in September 1986.

The work of construction and erection of four spheres was awarded to M/s. G.R. Engineering Works Limited (GREW). When Sphere No.I after its erection was under hydrotesting in March 1989, it suffered uneven settlement and finally tilted. The foundations of spheres No.II, III and IV were also seen to have suffered uneven settlement. A committee set up by BPCL to go into the causes of the failure and recommend rectificatory action established that the strength of the soil after enrichment with vibro stone column was overestimated by Cemindia and also observed that the hydrotesting which was done in consultation with Cemindia was not done in a planned manner. For rectification it was decided to revert back to the conventional design of leg-supported type spheres as origninally proposed.

The complete rectification was carried out by Cemindia and GREW at a cost of Rs.466.78 lakhs under the supervision of Engineers India Limited who had been co-opted by the Committee as consultants. This expenditure could have been avoided if the soil conditions had been correctly judged.

The disputes and differences that had arisen between BPCL and Cemindia were referred to arbitration; the sole Arbitrator, gave in July 1991 an award of Rs. 6 lakhs only in favour of BPCL against a claim of Rs. 1221.75 lakhs. BPCL has appealed to the High Court of Bombay for setting aside the award of the Arbitrator.

The Ministry stated in November 1993 that the failure was predominantly due to the over-estimation of the strength of the soil enriched with the vibro flotation stone columns method and the hydraulic load served as a contributory factor to the tilting of Sphere I. The Ministry also stated that the expenditure on rectification substantially represented the cost of the conventional system of construction envisaged in the original scheme of the project. According to the Ministry, only the expenditure on soil enrichment, construction of buss raft foundation and its breaking and removal and part fabrication cost amounting to Rs.110.08 lakhs could be treated as extra expenditure.

14.2 Loss due to defective agreement

During the period from August 1988 to February 1991, Bharat Petroleum Corporation Ltd - Southern Region (BPCL (SR)) had to downgrade 288 KLs of Benzene into Motor Spirit (MS). This downgradation became necessary because of contamination of Benzene while it was being transported from Bombay (276 KLs) and Cochin (12 KLs) to its Tondiarpet Installation, Madras, through hired tank lorries.

The terms of the agreement with the transport contractors required them to bear the loss calculated at the difference in the selling prices of the 2 products ruling on the date of such loss. The difference in the selling price of Benzene and MS is small as surcharges which are required to be surrendered into the oil pool accounts are included in the selling price of MS. Therefore, BPCL (SR) was able to recover from the transport contractors only a sum of Rs.1.06 lakhs on the downgraded Benzene. Based on its costs of production, Benzene has a much higher ex-refinery price than MS and the actual loss on downgrading the Benzene into MS worked out on the ex-refinery prices amounted to Rs.13.79 lakhs. Thus, a sum of Rs.12.73

lakhs could not be recovered from the transport contractors in the absence of provision in the agreement to recover the actual loss to the Company. On this being pointed out in Audit, in December 1991, the Company introduced (June 1992) a new clause in the agreement with transporters to provide for recovery of the actual loss in case of downgradation of the product.

The Management stated (March 1994) that the loss was caused by the conversion of a free trade non-formula product Benzene, into a formula product MS, for which there is an administered price mechanism.

In the petroleum industry, where products are quality sensitive and downgradation of free trade products to formula products is not uncommon, it would have been prudent from the very beginning to have included a provision in the agreement about recovery of actual loss. The failure to make a suitable provision in the agreement led to the loss of Rs.12.73 lakhs to the Company.

The matter was referred to the Ministry in November 1993. Their reply has not been received (December 1994).

BHARAT PETROLEUM CORPORATION LTD. AND IBP CO. LTD.

14.3 Premature payment of deposit

Bharat Petroleum Corporation Limited (BPCL) approached South Central Railway (SCR) in September 1988 for providing siding facilities to be used jointly by them and IBP Company Limited (IBP) for their bulk oil depots proposed to be constructed near Cherlapalli Railway Station. SCR agreed (October 1989) for exchange of land already in their possession and suitable for this purpose, for an equal area of land near Cherlapalli Railway Station to be acquired jointly by BPCL and IBP and handed over to SCR. The work of laying the railway siding was entrusted to SCR in April 1991 as a deposit work at an estimated cost of Rs.4.79 crores, and the deposits were made in two instalments in April 1991 (Rs.3.57 crores) and October 1991 (Rs.1.22 crores) even before acquiring the equivalent land to be handed over to SCR. However, pending acquisition of equivalent land near

Cherlapalli Railway Station, the work on the railway land was not started. The land to be handed over was finally acquired only in September 1992 and is yet to be transferred to the Railway (October 1994). South Central Railways finally took up the work on their land which had been identified in October 1989 for the exchange, in August 1993, in anticipation of legal transfer of the equivalent area of land purchased by BPCL and IBP.

Thus, making of deposits with SCR without acquiring the land for the exchange, which was one of the conditions of the agreement with SCR, resulted in blocking of a sum of Rs.4.79 crores for the period from April/October 1991 to August 1993 and consequential loss of interest of Rs. 1.96 crores calculated at the rate of 18 % per annum.

The matter was referred to the Companies and Ministry in October 1994. IBP replied (December 1994) that the deposit was made at the instance of SCR in the hope that the work would be started soon thereafter. The replies of BPCL and the Ministry have not been received (December 1994).

BHARAT PETROLEUM CORPORATION LTD.

14.4 Delay in finalisation of a contract

Bharat Petroleum Corporation Limited (BPCL) invited limited tenders on 12th October 1989 in two bid format from seven parties for RCC piling work for the Oil Terminal Project at Visakhapatnam through their project consultants,Engineers India Limited (EIL). The first part of the tender was for RCC driven piles in tankage area and the second part for piles in building area. The time schedule for placement of order was three months from the date of opening of the price bid and the work was to be completed within eight months from the date of placement of the order.

Six parties responded to the enquiry and technical bids were opened on 7th November,1989. Teçhno-commercial clarifications were obtained from all the parties and were found acceptable. Price bids were opened on 6th December,1989.

The offer of National Building Construction Corporation (NBCC) was the lowest at Rs.243.22 lakhs for both parts of the work. EIL recommended (February,1990) award of the work to NBCC as the price offered by them was the lowest and they were technically capable of doing the work. Before the placing of the order,one of the tenderers *Contractor A raised (March,1990) some doubts about the competence of NBCC to execute work of that magnitude. After investigation, EIL reconfirmed that NBCC had executed many piling works of higher magnitude for ONGC,NTPC,BHEL,etc.

Though the original validity of the offer of NBCC was upto 6th March,1990, the validity was finally extended upto 30th May,1990 in response to requests made several times by BPCL to extend the validity but with 20 percent increase in the price quoted.

BPCL, however, finally decided on 25th June, 1990 to retender the work. Bids were received from three parties and the job was awarded to the lowest tenderers one of whom was Contractor A at a total cost of Rs.370.42 lakhs.

Though the technical evaluation done in November/December 1989 itself had found NBCC to be technically capable of executing the job, *BPCL* failed to take a decision in time resulting in avoidable extra expenditure of Rs.127.20 lakhs.

The Management stated (November,1993) that (i) the original quote of NBCC (Rs.243.22 lakhs) was found unworkable when compared to EIL's estimate (Rs.493.12 lakhs); (ii) NBCC increased its original offer by 20% during currency of the validity; and (iii) NBCC did not produce the resource based work plan. The Management further stated that in view of these reasons it was a commercially prudent decision to retender.

The reply of the Management is not acceptable because, as mentioned earlier, the competence of NBCC to do the job was already established. The work was finally awarded at a total cost of Rs.370.42 lakhs which was lower than the EIL's estimate by 25%. This would indicate that the EIL's estimates were

unrealistic. The 20% increase in rates by NBCC was due to delay in placing the order (after the expiry of the original validity of 6th March, 1990 and first extension

upto 31st March,1990). Even after taking into account the escalation of 20% demanded by NBCC in April, 1990, their offer was 21% lower than the cost of contracts awarded after retendering.

The matter was referred to the Ministry in August 1993. Their reply has not been received so far (December,1994).

GAS AUTHORITY OF INDIA LIMITED

14.5 Borrowing in advance of requirements

The Company drew a loan of Rs.100 crores (Rs.60 crores in January 1993 and Rs.40 crores in March 1993) from Oil Industry Development Board (OIDB) for meeting capital expenditure on the Uttar Pradesh Petrochemicals Complex (UPPC).

The terms and conditions governing the loan required the repayment to be made in eight annual instalments (after a moratorium of two years) with interest at 16 per cent per annum. The Company, however, did not utilise the amount of the loan for the UPPC project but invested the money in inter-corporate deposits and earned interest income amounting to Rs.14.45 crores (at an average rate of interest of 14.45 percent per annum) during the year 1993-94. On the other hand Rs.16 crores was payable by the Company to OIDB as interest on the amount.

The investment on UPPC project upto 31.3.1994 amounted to Rs.189 crores, which was entirely financed from the Company's own resources without utilising any amount received as loan, as the Feasibility Report of the UPPC project provided that equity was to be used first and loan money thereafter.

Thus, the drawal of the loan of Rs.100 crores though not immediately required and its placement in inter-corporate deposits resulted in a loss of Rs.1.55 crores to the Company (upto 31st March 1994), being the difference between

interest payable and the interest earned on the amount. The sum of Rs.1.55 crores was charged to the project cost as financing charges.

The Ministry stated (January 1995) that the entire amount of the loan had already been used for the purpose for which it was drawn. The Ministry further stated that it was not possible to draw money from OIDB as and when any bill of the contractor was to be paid. This made it necessary to carry temporary surpluses which were invested for short periods instead of being kept idle.

The reply that the loan was utilised is not tenable as in September 1994 it had been stated in response to an audit enquiry that the UPPC project was to be financed from equity first and loan thereafter and on this very ground the Company had in its accounts for 1993-94 credited the project with Rs.14.45 crores as interest earned on the investments made from the loan funds. That the loan of Rs.100 crores had not been spent is also evident from the Company's report to the Ministry (August,1994) that total expenditure upto 31st March 1994 on various projects (including UPPC project) had been met from Pool Money (own generation) only.

HINDUSTAN PETROLEUM CORPORATION LIMITED

14.6 Delayed allotment of quarters

Construction of 120 residential quarters at Yarada Park for a certain category of staff was completed in March 1989 at a cost of Rs.171.32 lakhs. After completion of electrification and water connections the quarters were ready in all respects by March 1990. However, the quarters were allotted in August 1992 after an abnormal delay of 28 months due to delay in arriving at an agreed formula for sharing of quarters between Visakh Refinery and the Marketing Unit of the Company located at Visakhapatnam.

The delay in allotment of quarters had resulted in a loss of Rs.17.48 lakhs due to payment of house rent allowance (Rs.12.10 lakhs) and loss of rental revenue (Rs.5.38 lakhs) for the period from April 1990 to July 1992. Besides, the Refinery

had to incur an additional expenditure of Rs.3.57 lakhs towards replacement of fittings stolen from the vacant quarters.

The Company replied in February 1994 that initially there was delay in arriving at an agreed formula for the sharing of quarters between the staff of the Refinery and of the Marketing Unit as this was the first occasion when the residential quarters had to be shared with the Marketing Unit and there was opposition from the Refinery Staff Union to sharing of quarters with marketing staff.

The reply is however, not tenable as the Company could have arrived at an agreed formula on the sharing of quarters well before the completion of the construction.

The matter was reported to the Ministry (November 1993). No reply has been received (December 1994).

14.7 Utilisation of Lube Drums

The Tondiarpet Terminal of Hindustan Petroleum Corporation Limited (HPCL) uses new drums with gross filling capacity of 216 litres and safe filling capacity of 210 litres per drum for despatch of lubricating oil. However, until March 1993, each drum was being filled with 205 litres only leaving 5 litres of its capacity unutilised. The practice resulted in excessive consumption of drums, involving an avoidable expenditure of Rs.26.68 lakhs during the period from April 1989 to March 1993.

The Management stated (October/November 1993) that till March 1993 they had been filling only 205 litres per drum due to various technical and operational reasons such as spillage, hot filling, frothing etc., and that after switching over to a new filling system they had commenced filling the drums with 210 litres from April 1993.

The reply is not tenable as the other oil companies in the same region had all along been filling 210 litres per drum. Necessary change over to the new filling system could have been effected much earlier to avoid uneconomic use of drums.

The matter was referred to the Ministry in October, 1993. Their reply has not been received (December 1994).

14.8 Delay in placement of an order

In response to an enquiry (August 1990) for the purchase of bladders for hydraulic accumulators, Bharat Heavy Electricals Limited (BHEL) the supplier of the item quoted in January 1991 a unit price of Rs.71,725, valid for a period of 60 days. The purchase order placed in July 1991 for 4 bladders was rejected by BHEL in August 1991 on grounds of expiry of the validity of the offer. In response to a fresh enquiry in October 1991 BHEL quoted in December 1991 a revised unit price of Rs.4.49 lakhs against the earlier quoted price of Rs.71,725.

An order was placed (February 1992) for the purchase of 4 bladders at a total basic cost of Rs.17.96 lakhs. The supplies were received between September 1992 and March 1993.

Thus, the failure to place the order within the validity period of the first quotation had resulted in an avoidable expenditure of Rs.17.94 lakhs, being the difference between the price at the stage of the first enquiry (Rs.3.48 lakhs) and the total landed cost paid by the Company (Rs.21.42 lakhs).

The Management stated in February 1994 that the quotation of January 1991 from BHEL was obtained only for price comparison with the earlier quotation (1988) of an overseas supplier, and when the need arose in July 1991, the order was placed on BHEL at the revised higher price.

The reply of the Management is not tenable because:

(i) The quotation furnished by the foreign supplier in 1988, was not comparable with the quotation of BHEL in January 1991. The foreign supplier had furnished the

quotation through their Indian agents which was rejected by the Company as it was not in accordance with the purchase policy of the Company.

(ii) In the telex of August 1990, calling for a quotation from BHEL it was clearly indicated that the bladders were required and their quotation should be on earliest delivery basis.

(iii) The Management's suggestion that the delay in finalising the order was also due to lack of response from BHEL to their request for waiver of advance payment is also not tenable as payment of advance was a standard condition of the supplier.

Thus, the Company could have placed the order within the validity period of the first quotation and thus avoided the extra expenditure of Rs.17.94 lakhs.

The matter was reported to the Ministry in November 1993; their reply has not been received (December 1994).

INDIAN OIL CORPORATION LIMITED

14.9 Delay in utilisation of land

The Indian Oil Corporation Limited acquired a plot of land measuring 1416 square metres at a cost of Rs.22 lakhs for construction of office and housing complex for its Rajkot Divisional Office. The land was taken over by the Divisional Office in April, 1986. The construction of office and housing complex has not yet (September,1994) been taken up. As a result, the Divisional Office continues to occupy leased accommodation.

It was observed in audit that the purchase was made without adequate prior planning.

The Management's reply (August,1993) which was endorsed by the Ministry, was that :

1. Before commencement of work actions like finalisation of concept, appointment of architects, survey and soil investigations, preparation of

preliminary/detailed estimates/drawings, approvals and invitation of tenders were required.

2. In view of the frequent changes (in the concept) and new developments(industrial relations problems) it was felt necessary that a Committee should go into all details and come out with final recommendations which could be implemented on all India basis and that Committee submitted its recommendations in 1991.

3. There was a change in the consultant due to the backing out of the first consultant.

4. The intention of the Management had been to develop a good model concept in the shortest possible time to ensure economy in cost, maximum use of FSI, and standardisation of design.

The reply is not convincing. For a small plot of 1416 sq.metres, the time taken (over six years) to finalise the concept alone was excessive. After allowing a period of two years for completing all activities from taking possession of land to construction of the building, the loss of interest on Rs.22 lakhs reckoned for the period May,1988 to September, 1994 works out to Rs.23.16 lakhs (at the interest rate of 16.5 percent per annum). During the same period the Divisional Office incurred lease rent, for office and residential buildings, which amounted to Rs.23.21 lakhs.

Had proper and timely action been taken by the Management, the delay in the use of the land could have been avoided.

14.10 Avoidable charges for electricity

The Barauni Refinery of the Company has its own captive power plant with 3 turbo generators capable of meeting the power demand of the refinery as well as the township during normal operation. To meet the emergency power requirement in the event of total failure of power plant, the Refinery entered into an agreement

with Bihar State Electricity Board (BSEB) in November 1987 for annual contract demand of 3750 KVA retrospectively from Ist April 1987.

During the period from April 1987 to March 1993, drawing of power from BSEB was much less than the annual minimum guaranteed consumption (78,84,000 KWH to 83,76,750 KWH) calculated on contract demand of 3750 KVA. In fact, only 23,11,780 KWH of Power was imported from BSEB during the six years (1987-88 to 1992-93). Owing to non-drawal of the minimum power for which payment was due to BSEB, regardless of actual consumption of power, the Refinery had to make extra payment of Rs.333.60 lakhs towards energy charges without deriving any benefit.

The reason for drawing less energy from BSEB was attributed by the Management in July 1993 to less power failure in the Refinery. Moreover, according to the Management, it was not technically feasible to import any energy from BSEB during normal operation of power plant.

It was only in January 1993 that Barauni Refinery started continuous drawal of power from BSEB after construction of a feeding grid in the thermal power station at a cost of Rs.5.08 lakhs. The contract demand was also reduced to 2750 KVA from November 1993. Import of power from BSEB during 1993-94 was as high as 60,39,345 KWH (which constituted 81 per cent of the minimum guaranteed consumptions).

Thus, in the absence of proper arrangements to draw power from BSEB grid while running its captive power plant and also due to incorrect assessment of contract demand for emergency power during the first six years, the Refinery made avoidable payments of Rs.3.34 crores to BSEB.

The Ministry stated (December 1994) that the agreement with BSEB to import power and energy is to be construed as an insurance against failure (total or partial of self generated power) and the payments had been made to BSEB as per the agreement.

This does not explain the delay in the installation of the feeding grid.

14.11 Contract for testing and painting of LPG cylinders

Indian Oil Corporation Limited (Company) awarded (January 1989) on limited tender basis to a contractor of Chandigarh the work of statutory testing and painting of 1,25,000 old LPG cylinders at Rs.15.55 per cylinder. The contractor deposited an amount of Rs.30,000 as security and a bank guarantee for Rs.1 lakh. In terms of the work order the contractor was to give a bank guarantee of Rs.950 for each cylinder which would remain in his custody but on the basis of a representation from the contractor, the Company reduced (February 1989) the bank guarantee amount to Rs.1 lakh. The Company was to give 1000 cylinders to the contractor initially; on satisfactory performance the number of cylinders was to be increased to 1500. The Company also supplied (May 1989) to the contractor (on a token lease rental of Re.1 per month) imported hydrostatic testing and painting machinery valued at Rs.11.29 lakhs, without obtaining any security.

The Company started supplying old cylinders to the contractor from February 1989. The quality of the contractor's work was, however, found to be unsatisfactory and despite repeated reminders to improve the work and set right several discrepancies the contractor failed to do so. The Company, therefore, asked (February 1990) the contractor to suspend the work and to return 1774 old cylinders, 400 new valves, imported machines supplied to him on lease and to replace 145 spurious cylinders supplied by him to the Company. No action was taken by the contractor. The Company suspended the contract in September 1990 and invoked the bank guarantee for Rs.1 lakh in October 1990.

In December 1992, i.e. more than two years after the suspension of the contract, the Company decided to take legal action against the contractor and filed (February 1993) suit for Rs.27.38 lakhs alongwith interest and costs representing the value of unreturned cylinders, valves and replacement of spurious cylinders. For the recovery of leased equipment the Company resorted to arbitration. The arbitrator awarded the Company Rs.11.29 lakhs; the award was filed in Court and was decreed on 6th September 1994.

However, the chances of recovery of the amount outstanding against the contractor are remote as the summons issued to him in Chandigarh was returned with the report that no such firm exists.

Thus, failure on the part of the Management to safeguard the interest of the Company by obtaining from the contractor a bank guarantee sufficient to cover the cost of the equipments and machines leased and old cylinders and valves issued to him and the delay of more than 2 years in initiating legal action for recovery from the contractor has resulted in a loss of Rs.38.67 lakhs to the Company.

The Ministry stated (December 1994) that the Company have now been advised to ensure that adequate security by way of bank guarantee and security deposit is obtained from repairers for safeguarding the Corporation's equipments and that a high level committee has been constituted (July 1994) to investigate the case and fix responsibility.

14.12 Loss on import of Raw Petroleum Coke

The Company, being the sole canalising agent for import of petroleum products, entered into an agreement in May, 1991 with a firm* of Haldia for import and supply, on high seas basis, of 13000 tonnes of Raw Petroleum Coke (RPC) to the firm at a provisional price of Rs.3700 per tonne. The agreement did not contain any specific provision requiring fluctuations in the rates of foreign exchange to be borne by the buyer.

The Company imported 13,650 tonnes of RPC on 4th June, 1991, availing of a dollar credit for 180 days because free foreign exchange was not available. The material was supplied to the buyer on 30th June, 1991 after accepting from the buyer the provisional price at Rs.3700 per tonne.

When the exchange rate rose from Rs.19.50 to Rs.26.00 per dollar in August, 1991, the Company sought from the buyer a commitment to pay the difference between the provisional price and the final price to be determined at the time of final payment to the foreign supplier in December, 1991 based on the then

prevailing exchange rate. The buyer , however, refused to bear the additional cost on account of exchange rate fluctuation as he had made the payment in advance and as the increase had been due to availing of 180 days credit by the Company.

Thus, non-inclusion of a specific clause in the agreement for fluctuations in foreign exchange rates to be borne by the buyer, resulted in a net loss of Rs.83.52 lakhs (after adjustment of interest income of Rs.26.48 lakhs) to the Company. The request of the Company to the Ministry of Petroleum & Natural Gas for recovery of the loss from Oil Pool Account was also not agreed to.

The Management/Ministry stated in March/September 1994 that the case had been referred to an arbitrator, whose findings were awaited.

14.13 Infructuous expenditure on an oil terminal

Indian Oil Corporation (Southern Region) (IOC) commissioned the Fishing Harbour Terminal at Cochin in September 1991, with two tanks of 70 KL capacity each, at a cost of Rs.17 lakhs approximately in order to provide enhanced HSD facilities to the fisheries trade in West Coast area. The potential offtake of the terminal had been assessed at 3000 KLs in the second year of its operation. However, in the first 9 months of its operation, the actual offtake was 589 KLs only with `no' sales recorded in 6 of those months. As a result, the terminal was decommissioned in July 1992. In addition to an idle investment of Rs.17 lakhs, IOC also incurred operating expenditure of Rs.1.51 lakhs in those 9 months.

The Management stated (January 1994) that the decision to commission the terminal at Cochin was based on indications given in a meeting in April 1988, convened by Marine Products Export Development Authority (MPEDA) and attended by representatives of IOC, Fishery Survey of India, Trawler Operators and other Government Agencies, that a minimum of 20/25 large deep sea fishing trawlers would operate from Cochin every year for about 5 to 6 months. IOC estimated that this would mean a potential offtake of at least 3000 KL per annum for the terminal. According to the Management, the anticipated offtake did not materialise when the terminal was commissioned in September 1991, because the

trawler operators had already shifted their operations to Goa and the East Coast due to paucity of catches. This led to the closure of the terminal.

The Ministry stated (July 1994) that the investment at Cochin was made in business interest and with the good intention of helping the fishing industry which is one of the fast growing sectors that need the support of the oil industry. The Ministry also stated that tankage and other equipments would be shifted to Mysore to be utilised for provision of facilities at a Railway Consumer Depot.

The reply is not tenable as the terminal was commissioned without systematic assessment of offtake by IOC and the estimate was based on the discussion in the meeting convened by MPEDA in April 1988. Evidently, 41 months later in September 1991 when the terminal was commissioned, the assessment was found to be incorrect. The setting up of the facility without a thorough examination of requirements has resulted in infructuous expenditure of Rs.18.51 lakhs by IOC.

14.14 Hiring of godowns in excess of requirements

Indian Oil Corporation, Southern Region (IOC/SR) took on lease (December 1991) from a private firm two godowns at Madras measuring together 60,000 sq.ft. for storage of Paraffin wax. The lease rent was Rs.2.70 per sq. ft. per month and the remuneration for handling and managerial charges was Rs.46,000 per month.

A review conducted (May 1993) by the Region revealed that the actual quantity of wax stored at any point of time ranged between 370 tonnes and 2060 tonnes and it was assessed that 21,000 sq. ft. would be sufficient for storage of wax. The lease of one godown measuring 21,000 sq. ft. was terminated on 23.2.1994 after negotiations with the lessor in October 1993 and the remuneration for managerial and handling charges was also reduced to Rs.25,000 p.m. However, the Company retained the other godown measuring 39,000 sq.ft.

Paraffin wax is an allocated product and the ann... ...ocations for IOC(SR) were planned to be only about 5000 tonnes. During the peri... December 1991 to February 1994 the maximum quantity of wax ever stored in these godowns was 2060 tonnes in March 1993. The review of requirement of storage space in May 1993 had established that 21,000 sq. ft. would have been sufficient. Therefore the Company by leasing godown space in excess of the requirement, incurred a total amount of Rs.32.83 lakhs on avoidable lease rent for the period from December 1991 to February 1994. The Company continues to spend Rs.48,600 per month from March 1994 onwards on such leased godown space.

The Company stated (January 1995) that based on the quantity of imports lined up, it was estimated that at a given time approximately 4000-5000 tonnes of paraffin wax would be required to be stored which would need an area of about 60,000 sq. ft. They accordingly took on lease 2 godowns at Madras measuring 60,000 sq. ft. Further, as there was no provision in the lease agreement for deleasing any area in part or full before the expiry of the agreement, the Company could not delease during the currency of the lease. The Ministry endorsed (January 1995) the views of the Management.

The Company's reply is not tenable because the planned annual allocations for IOC(SR) were only about 5000 tonnes from 1989-90 to 1992-93, the actual imports were in multiple consignments and the actual quantity of wax stored at any time was not more than 50% of the assessed quantity.

LUBRIZOL INDIA LIMITED

14.15 Poor output of N2/CO2 Plant

Nitrogen/Carbon Dioxide are essential inputs for the manufacture of chemical additives by Lubrizol India Limited. The Board of Directors of the Company approved (November, 1986) the setting up by October, 1988 of a new N2/CO2 plant for Rs. 80 lakhs. The Company placed (May, 1987) an order with M/s Kinetic Technology (India) Limited (KTI) for the design, fabrication and supply of the plant with an annual capacity of 880 tonnes of CO2 and 3550 tonnes

of N2 per annum at 100% capacity utilisation with 8000 hours of working. The value of the order was Rs. 76 lakhs.

The plant was commissioned after a delay of about 2 years in June, 1990. The reasons for delay in commissioning the plant were delay in supply of equipment/machinery by KTI, change in scope of work by the Company and frequent refractory failures. Operations in the plant could be stabilised only by June, 1991 as the supply of water required for the functioning of the plant was erratic; even thereafter production has not reached the expected level as indicated below :

(Quantity in tonnes)

	1990-91		1991-92		1992-93		1993-94	
	Capacity (70%)	Actual Production	Capacity (80%)	Actual Production	Capacity (85%)	Actual Production	Capaicty (85%)	Actual Production
N2	2485	1182	2840	1438	3018	1581	3018	1231
CO2	616	443	704	365	748	123	748	77

As a result, the shortfall had to be met by purchase from the market. The extra expenditure on account of market purchase of N2 and CO2 worked out to Rs. 236.64 lakhs for the period 1990-91 to 1993-94.

The Ministry stated (August, 1994) that it has not been possible for the Company to achieve its rated capacity mainly due to frequent failure of furnace refractories, repeated breakdown of compressors and dryers and malfunctioning of flame failure devices and control valves, etc. The Ministry further stated that a task force had been constituted and an action plan had been drawn up to improve the capacity utilisation and that the Company expected to achieve 90% capacity utilisation in respect of N2 generation within a year and problems in regard to CO2 generation were expected to be resolved by the middle of 1995.

OIL CO-ORDINATION COMMITTEE

14.16 Undue benefit to minor oil companies

The Indian Oil Corporation Limited was the sole canalising agent for the import of lube base oils till 29 February, 1992. According to the administered pricing system in vogue, the difference between the actual landed cost of imported base oil (including the customs duty) and the transfer price (ex-refinery price,duties and surcharges) of the indigenious lube base stocks was allowed to be claimed from the Oil Industry Pool Accounts administered and maintained by the Oil Coordination Committee.

Under the policy of economic liberalisation, the import of lube base oils was decanalised with effect from Ist March, 1992 and import of lube base oils at the market rate of exchange became permissible. However, in actual practice, the Indian Oil Corporation Limited continued to act as canalising agent and passed on imported lube base oils to minor oil companies in the private sector at the lower transfer price instead of the actual higher landed cost for imports.

The average price of such imported lube base oils (HVI-150, a widely used lube base oil) during the period from April 1992 to August, 1992 was Rs.10,379 per tonne for which the landed cost worked out to Rs.24,120 per tonne. As against this, the administered transfer price fixed for sale from a major oil company in the public sector to a minor oil company in the private sector was only Rs.17,227 per tonne. During the period, a total quantity of 18,486 tonnes was sold to the minor oil companies, which involved an unintended subsidy of Rs.12.74 crores to them met initially from the Oil Industry Pool Account and ultimately passed on to the consumer. This happened because no timely action was taken to rationalise the administered transfer price.

The transfer price of lube base oil (HVI) supplied by the major oil companies to minor oil companies was revised to Rs.21,404 per KL (Rs.23,844 per tonne) with effect from 16th September, 1992. With the revision of the transfer price by levy of an uniform surcharge of Rs.5940 per KL (Rs.6,617 per tonne), the

price of indigenous lube base stock became higher than the landed cost of imports at that time. Thus, the import of lube base oil became more attractive than buying indigenous lube base stock at the revised transfer price. As a result, the unsold quantity of lube base stock in refineries of major oil companies had been building up, imposing on them heavy carrying costs and even threatening to interfere with the production process due to problems of evacuation of stock. Indian Oil Corporation's inventory of lube base stock went up from 37,800 tonnes in April 1992 to 58,200 tonnes in April 1993 and that of Hindustan Petroleum went up from 20,758 tonnes in April 1992 to 44,035 tonnes in April 1993.

The Ministry stated (October, 1993)

"On the announcement of the new Import Export policy it was not immediately possible for the minor oil companies to find alternative source of lube oil base stock. On announcement of the Government policy during March 1992, they had to take steps to organise themselves to contact potential suppliers of this product before actual receipt of the lube based oil stock. Thus, the drawal of LOBS by minor oil companies was allowed till alternative arrangement to import on their own could be made at the earliest". As regards the situation that prevailed after 16th September, 1992 when the import became cheaper than the administered prices as a result of levy, the Ministry stated that "Drop in sale during 1992-93 is because of stopping sale of base oil to minor oil companies/private parties who started importing directly by themselves. Therefore, reason for increase in inventory build up on a particular date as indicated by Audit by an individual oil company could not be attributed to the increase in transfer price."

The Ministry's reply does not change the fact that the minor oil companies/private parties continued to draw base oil from the major oil companies at the administered transfer price even after decanalisation and once the administered price was raised they started resorting to import resulting in base stock piling up with the major oil companies. The undue benefit to the minor oil companies/private parties was the result of delay in adopting the administered price in time once import of lube base oil was decanalised and liberalised.

14.17 Administered price of naphtha.

Naphtha is produced in public sector refineries in the country and marketed by the three public sector oil companies viz. Indian Oil Corporation Limited (IOC), Hindustan Petroleum Corporation Limited (HPCL) and Bharat Petroleum Corporation Limited (BPCL). This naphtha is subject to administered pricing and the prices are fixed by the Government of India. The price of naphtha used for other than fertiliser production was fixed at Rs.6075.69 per tonne from 16th September, 1992. This fixation was based on the import parity price prevailing at that time.

The production of naphtha is surplus to the requirement of the country. The exports during the years 1992-93 and 1993-94 were 1.518 million tonnes and 1.620 million tonnes respectively.

Till December, 1992, the import, if any, of naptha was being canalised through IOC. In December, 1992, the Government of India decanalised its import and actual users were permitted to import their requirements.

Ever since September, 1992 the international prices of naphtha have been falling. The price which was around US $180 per tonne in September, 1992 fell to around US $162 per tonne in January, 1993 and to around US $115 per tonne in January-March,1994. However, no revision in the administered price of indigenously produced naphtha was effected by the Government. This resulted in the direct import of naphtha by the actual users both in public sector and private sector taking advantage of the decanalisation as imported naphtha was cheaper than the indigenous product. Indian Petrochemcials Corporation Limited, a public sector company, imported 5000 tonnes in March, 1994 at a delivered cost of Rs.5701 per tonne at Baroda. They further imported 35,000 tonnes in April/May 1994 (10000 tonnes at Rs.5796 per tonne and 25000 tonnes at Rs.6300 per tonne). The average cost of these imports was US $190 per tonne. At the same time, the average price realised by IOC in the export of 5,22,413 tonnes of surplus indigenous naphtha during January-March,1994 was only US $114 per tonne. After allowing for the transportation cost of US $14 per tonne for transportation from IOC's refinery at Koyali to Kandla Port, the net realisation was only US $ 100 per tonne.

Thus, while on the one hand, one PSU was exporting a product perforce at distress prices, on the other hand, another PSU was importing the product at much higher prices. If the 40,000 tonnes of naphtha imported by IPCL between March-May,1994, had been procured from IOC instead, based on the average price realised by IOC during January-March, 1994 the saving to IPCL would have been about Rs.11.52 crores.

Apart from the loss and related drain of foreign exchange, such a situation also results in further strain on railway and port facilities by avoidable cross movements of the same product. Moreover, the possibility of the exported product again being imported into the country cannot be ruled out.

The Ministry stated (September, 1994) that the domestic prices of petroleum products are not strictly comparable with the international prices. The Ministry also stated that the prices of naphtha in the international market are subject to violent fluctuations and the pricing of entire sale quantity of naphtha at international prices would have caused more losses to the Oil Pool Account. The Ministry also stated that the export of naphtha during 1993-94 has been 16,20,000 tonnes and sale to petrochemical units was 11,00,000 tonnes and that the import of naphtha by petrochemical units during this period is reported to be only 1,38,000 tonnes which is not very significant when compared to the volumes of export and sale.

The Ministry's reply is not tenable. The increase in administered prices of petroleum products in September, 1992 was based on import parity price prevailing at that time. While the Ministry is concerned about the loss to the Oil Pool Account, it has not disputed the loss to the country that has been suffered. The Ministry has not commented on the possibility of an export parcel sold at a lower price coming back at a higher price.

OIL AND NATURAL GAS CORPORATION LIMITED

14.18 Idle investment in a building and land

(a) In December, 1981, ONGC booked 30,000 sq.ft. of office space in the Standing Conference of Public Enterprises (SCOPE) Complex at Laxmi Nagar in Delhi. The building was scheduled to be completed for occupation by February, 1984 but the completion was delayed. In May 1988 ONGC booked an additional space of 1,70,028 sq.ft. at the SCOPE Complex on the ground that the space would be required for its expanding activities. ONGC continued to pay for the accommodation in instalments even though the completion of the building was delayed. By 1991, ONGC had paid an amount of Rs.32.08 crores.

Meanwhile in September, 1990, ONGC felt that the total space booked in the Laxmi Nagar Complex of SCOPE was far in excess of its requirements and decided to retain only 50,007 sq.ft. But SCOPE stated (December, 1990) that the relinquished area would be offered to other Public Sector Undertakings (PSUs) and the payment for the area would be refunded only on receipt of money from other PSUs. No PSU came forward to book the relinquished area. The construction of the building has also not been completed (September,1994).

The Ministry stated (September,1994) that in May, 1988 increase in activities was visualised and it was considered to be an opportunity for ONGC to acquire its own building in the Capital having scope for future expansion. This was the primary reason for booking additional space and since the expansion did not materialise, a decision was taken in September, 1990, to sell or lease 75% of the space booked.

The reply of the Ministry is not tenable because in March, 1988, ONGC had estimated its additional requirement (after vacating hired accommodation at other places) for office space upto 1990 at 46,000 sq.ft. only. It was not clear why the requirement was increased by about four fold in another two months by May,1988 when the booking was made. Though ONGC had decided in September, 1990 to sell or lease 75% of the space booked, they paid Rs.14.89 crores to SCOPE

between September,1990 and June, 1991. Further, ONGC's activities in Delhi were mainly related to liaison work. By injudiciously booking office space not required ONGC had not only blocked its funds to the extent of Rs.19.21 crores but had also foregone an interest of Rs.16.52 crores that could have accrued till October, 1994 (calculated at the rate of 18 percent per annum).

(b) The Bombay Regional Business Centre (BRBC) of ONGC acquired (October, 1988) a commercial plot measuring 10,425 sq.metres at Dharavi, Bombay from the Bombay Metropolitan Regional Development Authority (BMRDA) on payment (May,1988 and July,1988) of a lease premium of Rs.13.03 crores. The lease was for 80 years. The possession of the land was taken on 12 October,1988.

ONGC approved (April,1989), in principle, construction of an office building on this plot at a cost of Rs.18.80 crores subject to clearance of the estimates by its Member (Finance). It was felt that in the long run it would be desirable and economical to accommodate ONGC's different offices in the proposed building.

In September, 1990 the corporate office issued a circular stipulating that expenditure on works where no formal commitment/work order had been placed would have to be reviewed afresh with a view to establishing the necessity of such acquisition. Hence, the construction of the office complex was examined afresh when ONGC's Member (Finance) observed (April,1991) that since the additional requirement was only 12,629 sq.ft., it could be managed within the existing accommodation. The Chairman, ONGC also observed (February, 1992) that the plot should be sold as it was a bad choice. ONGC sought (March, 1992) the permission of BMRDA to sell the land.

ONGC had already incurred an amount of Rs.22 lakhs on development of land and was also incurring a recurring expenditure of Rs.31.65 lakhs per annum towards lease rent, taxes, security, etc.

Thus, ONGC had blocked an amount of Rs.13.25 crores since July, 1988 and was also incurring substantial amount of avoidable revenue expenditure. The

interest foregone on the blocked amount works out to Rs.14.91 crores upto October, 1994 (calculated at 18% per annum).

The Ministry stated (September,1994) that the Management on reconsideration has decided (November,1993) to construct an office building on the plot.

This, however, does not alter the fact that a plot of land acquired in 1988 has remained unutilised so far (September,1994).

14.19 Avoidable payment of extension charges

In December, 1982, the New Okhla Industrial Development Authority (NOIDA) allotted 20,000 sq. metres of land near Delhi to the Oil and Natural Gas Corporation Limited(ONGC) for construction of residential houses. According to the terms of allotment, the lease deed was to be executed within 30 days and construction completed within three years from the date of issue of the allotment letter. It was also stipulated that extension, if any granted, would attract extension charges/ penalties.

ONGC paid Rs.88 lakhs in January, 1983 as premium for 20,000 sq.metres. As the actual allotment of land was 21437.5 sq.metres, an additional sum of Rs.6.32 lakhs (Rs.4.40 lakhs in March, 1984 and Rs.1.92 lakhs in July, 1986) was also paid. However, ONGC submitted to NOIDA its plan for construction only in September, 1989. Before approving the plan, NOIDA demanded (March,1990) payment of extension charges as the stipulated period of three years for completing construction was already over. After payment of extension charges in November, 1990, the lease deed was executed in March, 1991. The construction of houses has not commenced so far (July, 1994).

The delay in commencement of construction had resulted in payment of avoidable extension charges amounting to Rs.30.18 lakhs for a period of eight years upto 1993.

Further, non-utilisation of the land acquired for the purpose intended has resulted in blocking of a substantial sum of money for over 10 years besides a low level of housing satisfaction at Delhi and avoidable leasing of flats for employees.

ONGC stated (January 1994) that construction of units would begin shortly. The Ministry endorsed the reply of ONGC (February 1994).

14.20 Delay in utilisation of a satellite space segment

ONGC, since 1983, had hired 12 satellite channels from the Department of Telecommunications (DOT) to provide a limited communication network between its offshore and onshore installations. In February, 1987, ONGC decided to go in for a large satellite communication network, TELNET, at an estimated cost of Rs.15 crores for connecting its headquarters at Dehradun with its Regional Centres and remote offshore and onland locations.

As the INSAT- 1B satellite under which the existing system was operating was ageing, ONGC decided (December, 1987) to take on lease satellite space from INTELSAT', a foreign satellite.

Taking into account the requirement of 50 carriers or 25 circuits (consisting of 2 carriers each), ONGC in October, 1988 took on lease 29 MHz of satellite space in two segments of 18 MHz (with an approved transmission plan for 30 carriers) and 11 MHz (with an available capacity of 20 carriers) from INTELSAT, at a quarterly rent of US $85,000 and US $52,000 respectively. ONGC started utilising the 18 MHz segment from 11 January, 1989 by transferring the existing communication network to INTELSAT.

The 11 MHz segment was to be used after the commissioning of the earth station equuipments (transportable/fly away terminals under TELNET- Project) which were also to be in operation by October,1988. In August, 1988, ONGC invited tenders for earth station equipments. Since only one quotation met the specifications, tenders were refloated (October,1988) with relaxed specifications, and the order was placed on Company `A' of Japan in November, 1989. However,

due to a Government of India directive not to give business to Company `A', the order placed on this firm was cancelled (January, 1990). Global tenders were again invited in March, 1990 and the order for earth station equipments was placed on Company `B' of Japan in February, 1991. Meanwhile, the 11 MHz segment could not be used for the intended purpose for want of earth station equipments.

At the instance of DOT, ONGC permitted the National Thermal Power Corporation Limited (NTPC) to use a part of the 11 MHz segment on a cost sharing basis from June, 1990. In view of the growing need for more circuits for offshore communication, ONGC also approached INTELSAT to allot both its segments in a continuous band so that the unused carriers in the 11 MHz segment could be used. ONGC was allotted the total segment of 29 MHz in one continuous band width in October, 1990 after which it was able to link its headquarters at Dehradun to the network.

Though ONGC was paying lease rentals for the 11 MHz segment from October, 1988 onwards, no part of it was put to use by ONGC upto September, 1990. Hence, the lease rental amounting to Rs. 63.03 lakhs (excluding the payments receivable from NTPC) paid on account of 11 MHz segment for the period from October, 1988 to September, 1990 proved infructuous.

While admitting that the 11 MHz segment could not be used for want of earth stations due to delay in procurement of equipments, the Ministry in its reply stated (December, 1993) that the delay was on account of modification of equipment due to change of technology, procedures involved for procurement of equipment and time involved in synchronisation of supplies from all indigenous and foreign suppliers as well as the Government agencies which were beyond the control of ONGC.

The reasons given by the Ministry are not convincing as the modifications were rendered necessary because of the lack of a detailed project report for the TELNET project. Even though DOT had prepared a technical feasibility report in September, 1987 which was accepted by ONGC, the configuration for ground equipment was not firmed up.

14.21 Failure of a Gas Turbine

The Oil and Natural Gas Corporation's co-generation plant at Uran for the production of power and steam was commissioned in 1984 with two gas turbines of 20 MW each. The gas turbines were required to be taken up for major overhaul between 32000 and 48000 running hours.

Action for overhaul of the turbines was initiated in February, 1991 by which time both the turbines had clocked over 44000 running hours. The overhaul of one turbine was actually taken up in October, 1991 and completed in December, 1991. By this time the other turbine had already clocked 51396 running hours. Before it could be taken up for overhaul, a tripping occurred on 7 December, 1991. It was observed by an Enquiry Committee that 6 `Duracel filters'had come out of the filter frame and got stuck on the screen and also entered the compressor section and totally damaged the compressor stator and rotor blades. The Enquiry Committee also observed that the failure was due to non-replacement of filters when due and to the use of indigenous filters whose mechanical strength had not been checked by ONGC.

Despite the fact that the gas turbines are critical equipment for the Uran Gas Processing Complex and that the cost of own generated power was much less than the power procured from outside, ONGC placed the work order for refurbishment of the turbine in December 1992 after a lapse of one year. The refurbishment was completed in May, 1993 at a cost of Rs. 625.62 lakhs. In the meantime, an extra expenditure of Rs. 22.61 crores was also incurred by way of increased electricity charges on power procured from outside.

The matter was referred to ONGC and the Ministry in May 1994. Their replies have not been received (December, 1994).

14.22 Delay in finalisation of contracts

ONGC invited (May, 1985) open tenders for the logging and perforation services of its wells for the year 1986. The existing contract was to expire on 31

December, 1985. When the price bids were opened (October, 1985), it was noticed that the rates quoted by the acceptable bidder were lower than the rates in the existing contract. Despite this, the finalisation of the tender was delayed and proposals for approval were sent to Government of India only in January, 1986 and approval was received on 31st March, 1986. Since the bidder required 3 months' time for mobilising the equipments, the new contract could come into force only from 1st July, 1986. As the logging operations had to continue uninterrupted, the existing contract, with higher rates was extended by six months upto 30th June, 1986. This has resulted in an avoidable expenditure of Rs.180.73 lakhs.

Similarly, the contract effective from 1st July, 1986 was to expire on 30th June, 1987, and action to call for tenders for two years (1987-88 and 1988-89) was taken in July, 1986. When the technical bids were opened in October, 1986, it was noticed that the rates offered were lower than the rates in the then existing contract. Despite this, there were delays at various stages in finalising this contract also. Since the new contract came into effect only on 1st August, 1987, the then existing contract was extended by one month upto July, 1987. This has resulted in further avoidable expenditure of Rs.32.91 lakhs.

Thus, total avoidable expenditure due to delay in the finalisation of contracts amounted to Rs.213.64 lakhs.

The Ministry stated (May, 1993) that the time taken for finalising the tender for 1986 was as per normal procedure and no undue delay occurred at any stage and as regards the tender for 1987-89, the opening date of technical bids had to be postponed by a month due to a representation by an Indian bidder against a clause of the bid evaluation criteria. The Ministry further stated that the delay of four months from October, 1986 to March, 1987 was unavoidable since the matter had to be examined very carefully due to a representation from an unsuccessful Indian bidder.

ONGC had been contracting for logging services since 1970s. Considering the three month period required for mobilisation, the schedule for finalisation of the contract for 1986 should have been drawn up so as to award the new contract well

in time particularly when ONGC was aware that the new rate offered was lower than the existing one. However, ONGC took about one year (May, 1985 to June, 1986) to complete the process. Despite its experience in finalising the contract for 1986, ONGC again delayed finalisation of the subsequent contract for 1987-89.

14.23 Avoidable expenditure in award of contract

Global tenders for the work of IA,IB,ICD and ID infill well platforms were invited by the Corporation on 30th August,1985. Technical bids were opened on 21st November,1985 and revised price bids were obtained by 10th February,1986. The lowest bid, that of M/s Hyundai Heavy Industries Company Limited of South Korea (HHI) at US $ 36,752,000 was recommended for acceptance and the case was sent to Government on 5th March, 1986 for approval and release of foreign exchange. The Ministry instructed (12th May,1986) the Corporation to call for revised offers in view of the substantial fall in international oil prices with consequential depressed conditions in oil field equipments and related services. Accordingly, bidders were asked by the Corporation to submit revised prices. The position of the two lowest revised offers received and opened on 19th May,1986 was as under :

(in million US $)

Name of bidder	Evaluated prices Part-I	Part-II	Turnkey	Scheduled date of completion
NPCC	14.650	20.500	34.750	31st Dec.1987
HHI	13.035	24.742	36.752	Pre-monsoon 1987

HHI was called upon and agreed to match the price of M/s.National Petroleum Construction Corporation (NPCC) at US $34.750 million. The Corporation recommended to Government of India award of the contract to HHI at US $ 34.750 million on 29th May,1986, after NPCC had confirmed that the delivery date of 31st December,1987 would be maintained by them provided the latter of intent (LOI) was issued by 7th June,1986.

The Ministry criticised the Corporation for entering into negotiations with HHI who were the second lowest party and who made the offer of pre-monsoon 1987 delivery after the revised bids were opened and directed (5th June,1986) the Corporation to place a conditional on LOI on NPCC. Accordingly, a conditional LOI was placed on NPCC on 6th June, 1986. Since splitting the contract would result in saving of US $ 1.215 million, the Ministry desired that the Corporation should ask NPCC and HHI to match the price of US $ 33.535 million for turnkey basis and in case of non-acceptance by both parties, the Corporation should consider splitting and awarding Part-I to HHI and Part-II to NPCC. These proposals were not accepted by either of the two parties. In the meanwhile, HHI withdrew its offer of US $ 34.750 million but extended the validity of their offer at US $ 36.752 million (scheduled date of completion as 31st December,1987) with two months grace period. This was accepted by the Corporation on 15th November,1986 and a firm LOI was placed on HHI on 21st November,1986. The Corporation thus incurred an extra expenditure of US $ 2.002 million ($ 36.752m minus $ 34.750m).

In this connection, the following comments arise:-

(a) NPCC was asked to match the turnkey price of US $ 33.535 million in August,1986 by which time its offer had already expired.

(b) No financing proposal was incorporated in the agreement subsequently entered into on 10th March, 1987 with HHI. The financial implication of HHI's offer, of 19th May,1986 with financing proposal and offer of 28th May,1986 with and without financing proposal, had not been worked out by the Corporation or Government.

(c) The conditional LOI placed on NPCC for US $ 34.750 million was withdrawn and a firm LOI was placed on HHI for US $ 36.752 million on exactly the same conditions.

The Ministry stated (November,1992) that :

i) by splitting award of contract, the completion schedule was getting extended to 31st December,1987 which was not in the interest of the Corporation,

ii) the delay in installation of infill platform would affect availability of platforms for drilling and recovery of oil,

iii) the revised price bids offered by NPCC on 19th May,1986 for Part-I and Part-II expired on Ist June,1986 and for turnkey was kept valid only upto 7th June,1986 and hence it became unresponsive and unacceptable,

iv) If the orders were split up, a need for installation of temporary decks would have arisen since the completion schedule of Part-I and Part-II would have been in pre-monsoon 1987 and December,1987 respectively.

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

i) it was seen from records that installation of infill platforms IA,IB,ICD and ID was completed in February,1988. By the time the order was placed, the completion schedule had already been extended upto February,1988 (including the agreed grace period of two months),

ii) although conditional LOI was issued to NPCC on 6th June,1986 before the expiry of their offer on 7th June,1986 the party was not asked to go ahead with the execution of work. Instead, they were requested in August,1986 to match the price of US $ 33.535 million on turnkey, which was declined by them. Had NPCC been asked to complete the job on turnkey basis at US $ 34.750 million there would have been a saving of US $ 2.002 million.

Under the circumstances, award of the work to HHI at US $ 36.752 millions resulted in avoidable expenditure of US $ 2.002 million.

14.24 Payment for unutilised facilities

The Bombay Regional Business Centre of Oil & Natural Gas Corporation Limited (ONGC) floated (July, 1986) an open tender for the hiring of one semi-submersible floating production process facility. Although the tender documents indicated that ONGC would need boarding and lodging for upto 20 persons on board the facility and required the bidder to quote the rate for boarding and lodging per person and mentioned that payment would be made for the persons actually deployed, the contract concluded with the lowest bidder was at an operating day rate of US $ 15100 per day inclusive of boarding and lodging charges for twenty ONGC personnel to be posted on board . The contract provided for charges at the rate of Rs.100 per meal and Rs.500 for each day of lodging for additional persons but there was no provision in the contract for rebates in boarding and lodging charges in the case of deployment of fewer than 20 persons by ONGC.

ONGC deployed only one person on the facility during the entire duration of the contract (19th January, 1989 to 18 January, 1991). If payment for boarding and lodging of ONGC personnel had been limited to the persons actually deployed, as envisaged in the tender document an expenditure of Rs.83.22 lakhs (Rs.600 x 19 x 730 days) could have been avoided.

When the matter was raised by Audit, ONGC stated that the issue of boarding and lodging did not appear to have been discussed during the Tender Committee proceedings and probably went unnoticed by oversight at that stage.

The Ministry had nothing to add (May 1994).

14.25 Idling of a drilling rig

The Oil and Natural Gas Corporation Limited (ONGC) obtained a petroleum exploration licence in July, 1987 for exploratory drilling in a deep reserve forest area in West Champaran District of North Bihar. The licence

stipulated that prior approval of the appropriate authority would be obtained for carrying out the concerned works.

In August, 1988, ONGC sent a proposal to the Forest Department of Bihar Government for permission to use 2.34 hectares of forest land for the drill site, with an assurance of minimal cutting of the 301 trees in that area. In October, 1988, ONGC commenced work on an approach road. By March, 1989, orders were also placed for all other civil works. In May, 1989, the Bihar Government granted working permission for exploration activity subject to the condition that no tree would be cut and no permanent structure would be built on the forest land. When ONGC approached the Bihar Government in July, 1989 for cutting 218 trees, they in turn took up the matter with the Central Government.

Meanwhile, the Forest authorities of the Bihar Government served notice to ONGC on 16 September, 1989 to stop construction of permanent structures, and on 5 October, 1989 to dismantle all structures. On 12 December, 1989, the Forest authorities dug trenches on the way to the drill site to prevent ONGC work.

In February, 1990, the Bihar Government informed the Forest Department and the Bihar Forest Development Corporation that ONGC was permitted to work subject to non-felling of trees. In March, 1990, ONGC revised the extent of proposed felling to 41 trees and sought approval. On 17th July, 1990 Bihar Government conveyed Central Government's approval for ONGC's drilling work subject to felling of only 41 trees by the Forest Department of the Bihar Government. ONGC completed all the civil works by 15 September, 1990 and the well was spudded on 17 September, 1990.

By commencing work in anticipation of approval and by releasing the drilling rig before obtaining the requisite clearance under the Forest (Conservation) Act, 1980, ONGC had to keep the rig and crew idle for about 7 months (10 February, 1990 to 16 September, 1990) resulting in infructuous expenditure of over Rs.3 crores at the rate of Rs.1.5 lakhs per day. In addition, the Government also levied a penalty of Rs.1 crore on ONGC for unauthorisedly taking up work and violating the provisions of the Forest (Conservation) Act,1980.

The Ministry stated (August 1994) that the rig remained idle during February, 1990 to September, 1990 because of inordinate delay in receiving the clearance.

The idling of the rig resulting in an infructuous expenditure of over Rs.3 crores was not due to delay in receipt of clearance. In May, 1989, the Bihar Government granted working permission subject to the condition that no tree would be cut. Knowing fully well that felling of trees would be involved, ONGC should not have released the rig for this location without obtaining the permission for all the necessary activities. Such permission with the revised requirement of felling of only 41 trees was sought for only in March, 1990 and was granted in July, 1990 whereas the rig started idling from February,1990.

14.26 Under-utilisation of a hired rig

In April, 1988, Oil & Natural Gas Corporation Limited (ONGC) invited bids for ten onland drilling rigs including two rigs to drill upto 6000 metres. The requirement was further enhanced by a corrigendum for two more rigs of 6000 metres capacity for deployment in Northern Regional Business Centre (NRBC). The case for rigs for NRBC was processed based on two independent drilling locations and six dependent locations (i.e. to be drilled depending on the results of other locations) available at that time in NRBC. In view of the data obtained from the wells drilled in 1988 and 1989, there was a major shift (July, 1989) in the exploration programme of NRBC. The wells Surinsar II, Nurpur I and Jwalamukhi-B were abandoned during the period June, 1989 to October, 1989.

Despite the reduced prospects for drilling in NRBC, ONGC entered into a contract with Mahindra & Mahindra Ltd. on 28th October, 1989 for hire of one drilling rig of 6000 metres capacity for a period of two years for operation in NRBC region only. The rig, expected to be made available by the contractor in April, 1990, was made available only in March, 1991 and was assigned one of the `B' category locations - Changaratalai I. The well Changaratalai I, after drilling 4,950 metres was abandoned on 16th September, 1992 and the contractor was asked (August, 1992) to stop drilling and move to Dimapur, a location in Eastern Region

as no other location for drilling was available in NRBC. The contractor refused (November, 1992) to do so, taking shelter under the contractual provision which restricted the area of operation only to NRBC. The contract was terminated from 27th December, 1992. During the period from 17th September, 1992 to 26th December, 1992, the rig waited without any benefit/operations for 15 days (29th September, 1992 to 13th October, 1992) at a cost of Rs.142500 per day and for 48 days (9th November, 1992 to 26th December, 1992) at Rs.95500 per day resulting in an avoidable expenditure of Rs.67.22 lakhs.

The Ministry stated (September, 1994) that at the time of entering into the contract, two independent locations and six dependent locations were available. As regards idling of the rig, the Ministry stated that the rig was fully utilised upto 8th November,1992 for retrieving of casings and other operations.

The Ministry's reply is not acceptable as it was known prior to entering into the contract that previous locations had been abandoned and that the prospects in NRBC were very poor. It was clear from the daily drilling reports that the rig was idling from 29th September,1992 to 13th October,1992 and again from 9th November,1992 to 26th December,1992.

14.27 Undue price preference to a supplier

ONGC's procedure for procurement of stores was to allow a price preference to an Indian supplier over a foreign supplier based on the domestic value addition by the Indian supplier. The domestic value addition was determined by taking the difference between the CIF value of the lowest technically suitable foreign offer and the cost of the Indian supplier's direct import requirement of raw material, components and consumables. The extent of price preference depended upon the extent of domestic value addition, going upto 35% when the domestic value addition was more than 70%.

ONGC placed eight purchase orders between March, 1989 and August, 1990 for casing pipes on Firm`A' and allowed price preferences ranging from 8.53% to 18.97% over the prices of the lowest foreign offers, based on the

calculated domestic value additions ranging from 20% to 57%. The total amount of price preference allowed in eight purchase orders worked out to Rs.478.15 lakhs. Since Firm`A' was importing mother pipes from the manufacturer and only threading and coupling was done indigenously, the actual domestic value addition would be negligible and not 20% to 57% as worked out by ONGC. Hence the price preference allowed was not justified.

Before allowing the price preference, ONGC did not obtain the break up of the cost price of imported and indigenous inputs to ascertain the extent of indigenous value addition. There were very wide differences in the import content indicated by various indigenous tenderers for the supply of the same final product and there was no mechanism with ONGC to check their reasonableness. In this connection, it was noted that acting on intelligence reports the officers of the Directorate of Revenue Intelligence searched the office and factory premises of Firm`A' and found that the firm had reportedly imported 548 tonnes of stainless steel plates without payment of duty during the period from October, 1989 to March, 1990 on the condition that the plates would be used in the manufacture of casing pipes connectors and thread protectors for supply to ONGC, but the firm had sold about 277 tonnes of the imported stainless steel plates in the local market.

The Ministry indicated (February, 1994) that in accordance with the Government guidelines prevailing during the period, the foreign exchange component of the bid as indicated by the bidders was considered while calculating the value addition and price preference, and the guidelines issued by the Government of India were silent on the need for verification by ONGC of the actual outgo of foreign exchange.

Thus, ONGC contracted for procurement of casing pipes from Firm `A' for Rs.4.78 crores more than the lowest bid, by granting price preference without ascertaining the actual domestic value addition involved.

14.28 Delay in setting up a Kerosene Recovery Unit

With the coming up of a Gas Processing Complex at Hazira, the Oil & Natural Gas Corporation Limited (ONGC) observed (May 1988) that 1070 thousand metric tonnes (TMTs) per annum of Natural Gas Liquid (NGL) would be available for which there was no adequate domestic demand. In order to convert the surplus NGL to Kerosene oil and aromatics-rich naphtha, both value added products, ONGC submitted (December, 1988) a feasibility report for the setting up of a Kerosene Recovery Unit at a cost of Rs.32.60 crores for an annual production of 249 TMTs of Kerosene and 821 TMTs of aromatic- rich naphtha. The project was expected to be commissioned in approximately 31 months from the date of Government's clearance.

The project was recommended in the pre-PIB meeting held in July 1989, but the final clearance from the Government was not forthcoming. In August 1990 when its powers for capital projects were increased from Rs.20 crores to Rs.50 crores, ONGC decided in September 1990 to sanction it for implementation within its own powers at an estimated cost of Rs.48.97 crores. Even at this stage the project could not take off as the Government intimated (October 1990) that this project would be executed by the Gas Authority of India Limited (GAIL). Ultimately, realising the additional costs that GAIL would have to incur if the project was to be executed by them, Government gave clearance to ONGC in May 1992 to proceed with the project. The contract for the main process plant was awarded in February 1993. In the meantime, export of substantial quantities of NGL and import of higher value kerosene has been continuing. Had Government given the clearance in September 1990 itself, the project could have been commissioned in April 1993. The delay in taking a decision on a project has already led to a delay of 1 ½ years (October 1994) with an associated import of Kerosene and export of NGL resulting in a loss of over Rs.28 crores.

The Ministry stated (July, 1994) that the Kerosene Recovery Project cleared by pre-PIB in July, 1989 was submitted to PIB in September 1989 but was returned by PIB for want of clearance from the Ministry of Environment and

Forests. As regards delay in the decision as to who should implement the project, the Ministry stated that the question concerning the transfer of assets from one organisation to another was a complex question which could not be decided in a hurry.

The Ministry also stated (June 1994) that ONGC was taking further necessary action in the matter on top priority.

Thus, the installation of an economically viable unit which would have reduced the import of kerosene was postponed for lack of clearance by Government and delay in deciding which of two public sector undertakings (ONGC or GAIL) under the same Ministry should set up the unit.

14.29 Non-utilisation of imported medical equipment

ONGC purchased a four-bed Cardiac Monitoring System alongwith Cardiac Monitors-cum-Defibrillators and a 3-Channel Electro Cardiograph for forming an Intensive Cardiac Care Unit at its hospital in Dehradun. The equipment purchased at a cost of Rs.30.90 lakhs was installed in October 1990. However, as the para-medical staff required to operate the equipment were not recruited, the equipment, except for some components valuing Rs.6 lakhs, remained unutilised (November 1994) since installation.

ONGC stated that creation/clearance of posts to operate the equipment somehow took an abnormally long time for some unavoidable reasons and these were finally cleared in February/March 1993. The Ministry endorsed the reply of ONGC (September, 1994).

The reply does not change the position regarding undue delay of three years in recruitment of para-medical staff, and the fact remains that, since installation, the medical equipment, except some components, remained idle (November 1994).

14.30 Avoidable expenditure on purchase of drill pipes

Oil and Natural Gas Corporation Limited (ONGC) placed (February, 1991) a supply order on Company `A' for the purchase of 45,000 metres of 5" drill pipes at the rate of Rs.42,812 plus US $ 5750 per 100 metres . The delivery was to commence within 26 weeks and to be completed within 40 weeks from the date of issue of Project Authority Certificate (PAC) which was issued on 23 February, 1991. ONGC had the option to place a repeat order on the same terms and conditions upto 50% of the quantity covered by the supply order during the period of validity of the supply order or six months from its date, whichever was later. The validity of the supply order was extended from time to time till April, 1993.

In July, 1991 ONGC invited another tender for purchase of 38,800 metres of the same item. The rates quoted by the lowest tenderer as well as Company `A'against this tender were higher than the rate at which the earlier order was placed in February, 1991. Despite this, instead of invoking the repeat order clause which was available for 22,500 metres, ONGC negotiated with Company `A'and placed (July, 1992) an order on them at the negotiated rate of Rs.1,21,136 plus US $ 3834 per 100 metres involving an avoidable expenditure of Rs.63.82 lakhs.

The Ministry stated (May, 1994) that the option for placement of the repeat order was not recommended in view of the heavy backlog at that time as well as the considerable difference in foreign exchange outgo between the repeat order option (which was higher) and the final order and that there was a foreign exchange crunch at that time.

The Ministry's reply is not convincing because if there was a considerable backlog, there was no justification for placing an order at a higher rate on the same Company. The reason given now for not exercising the option for the repeat order i.e. the foreign exchange crunch, was not considered by the Steering Committee which finally decided to place the order on Company `A' at a negotiated rate. Moreover, the availability of the option for a repeat order was not brought to the notice of the Ministry at the time of sending the proposal for the release of foreign exchange in March 1992.

14.31 Loss due to improper storage of casing pipes

ONGC purchased 1,08,830 metres of V-150 grade casing pipes of different sizes between 1984 and 1989 from various suppliers. After lowering of casings of this grade in a well in January 1989 in Northern Region after drilling to a depth of 5200 metres the casings failed. During subsequent drilling operations, the casings parted resulting in further complications and the abandonment at 5448 metres depth of the well on which an expenditure of Rs.36.37 crores had been incurred.

Even prior to lowering of the casings, longitudinal cracks had been observed in some of the casings. Failure of this grade of casings had also been experienced in other Regions earlier but the Northern Regional Business Centre had no knowledge of such failures. An investigation carried out by a supplier of the casings in September, 1988 had revealed that the casings had been stored in adverse weather conditions for a prolonged period although, due to their chemistry and high tempering, these casings were required to be handled and stored with extreme care. The supplier had recommended (September, 1988) that ONGC should re-examine the pipes and threads by NDT methods at the cost of the supplier so as to allay any apprehensions regarding their status but this was not done by ONGC before lowering the casing pipes.

In December 1989 it was decided to discontinue the use of V-150 grade pipes. As a result, a large quantity of these pipes were rendered surplus.

A review in audit of the utilisation of these pipes revealed that these pipes were bought much in advance and far in excess of the required quantities leading to their prolonged storage.

The Ministry while admitting (October, 1994) that cracks were observed on the surface of pipes, stated that all pipes were pressure tested before lowering but ONGC did not have sufficient time to go in for NDT inspection and that no facility was available in the Region or nearby market. The Ministry also stated that the downhole condition of casing prevailing in the well could not be firmly ascertained

to pin point the exact cause of failure but the possibility of collapse of casings could not be ruled out.

The Ministry's reply is not tenable as the use of unsuitable casing and, according to the `Well Completion Report', the failure of the casing was the cause for the well being abandoned.

As regards excess procurement and the improper storage of these pipes, the Ministry stated (May 1994) that these pipes were planned to be lowered in 18 wells and of the 18, four locations were subsequently cancelled and some of the wells were prematurely terminated due to geological reasons. The Ministry further stated that the casings were procured in advance keeping more than one variant in the drilling plan (which is a standard practice) so as to avoid rig idling but drilling was completed with only one variant. According to the Ministry all imported casing pipes irrespective of their grades were exposed to similar weather conditions. The Ministry added that instructions had been issued (February 1990) for more careful handling of this grade of casings and contended that there was no damage due to negligence nor any loss of inventory due to improper storage. The Ministry further stated that progress of utilisation had been slow but all out efforts were being made to utilise the casing pipes.

The Ministry's reply is not tenable. One of the reasons for discontinuance of the use of these pipes was `stress corrosion' which was due to prolonged and improper storage. The pipes were procured between 1984 and 1989. As the locations in which these pipes were to be used were not coming up for drilling, ONGC should have taken adequate steps for proper storage of these pipes. The manufacturer's representative had recommended NDT testing of pipes before lowering in view of their prolonged storage and damaged condition. NDT inspection was, however, not conducted. By May 1994, about 50 percent of the quantity (approximately 50000 metres) of these pipes costing about Rs.5 crores was lying unused.

ONGC VIDESH LIMITED

14.32 Avoidable expenditure on hiring of helicopter

To meet the requirement of the Company's offshore drilling operations in Vietnam, the Board of Directors approved (March 1990) hiring of PUMA (capacity 12 passengers) and MI-17 (capacity 18 to 24 passengers) helicopters from a foreign contractor depending on the requirements and at the rates quoted. The flying hourly rate of PUMA helicopter was higher by US$ 20 and the fixed monthly rate was much higher by US$ 24107 over MI-17 helicopter. The formal agreement signed (August 1990) with the contractor provided for deployment of one IFR equipped PUMA helicopter for the Company's exclusive use with an additional stipulation that on the request of the Company the contractor would provide a MI-17 helicopter in lieu of the PUMA helicopter, subject to availability, while payment of fixed standing charges would be that of PUMA. The addition was, however, not got approved by the Board.

Though the agreement was signed for the PUMA helicopter,involving higher fixed standing charges and hourly flying rate, there was greater utilisation of the MI-17 helicopter for 216 hours and 52 minutes as against 34 hours and 3 minutes for the PUMA helicopter during the period of the agreement from September 1990 to May 1991.

Further, even when as few as 3 and as many as 20 persons were to be carried the MI-17 helicopter was utilised by the Company; thus, the requirements of offshore drilling could have been met by the MI-17 helicopter alone .

Had the Company signed the agreement for MI-17 helicopter with an option to use the PUMA helicopter only when it was required, (instead of the other way around) the Company could have saved US $ 179791 (equivalent to Rs.35.15 lakhs) on fixed standing charge.

The Management while confirming the facts and figures stated that the extra expenditure as worked out by Audit could not be confirmed as the related files were with Vigilance.

The Ministry stated (January 1995) that the hiring of PUMA helicopter instead of MI-17 helicopter was under investigation by ONGC's Vigilance Department who had been requested to expedite their findings.

CHAPTER 15

MINISTRY OF POWER

NATIONAL HYDROELECTRIC POWER CORPORATION LIMITED

15.1 Loss due to procedural lapses

National Hydroelectric Power Corporation Limited (Company) imported 10 drums of 400 KV oil filled cables from a foreign supplier. Two of the drums arrived in a badly damaged condition and were not fit for use.

The Company had taken an open insurance policy for marine-cum-inland transportation cover from National Insurance Company (NIC), under which all the overseas consignments were covered from port of export to final destination in India. Under this policy the insurant is required to deposit a lump-sum amount with the insurance company for premium adjustments and to submit the earliest provisional notice of intended shipments to the insurance company giving the name of vessel, date of sailing and approximate value of the cargo.

In this case the material left the port of loading in May 1992 but the particulars were submitted to NIC only on 7th July 1992 i.e. after the berthing of the vessel at Bombay on 30th June 1992. In response to the declaration, NIC intimated that the insurance cover for this consignment could not be granted by them because (i) the balance of advance deposited with them was inadequate to cover the premium and (ii) the declaration about the consignment was submitted only after the goods had arrived at the port of destination.

Since no insurance cover for this consignment was obtained, a preliminary claim of Rs.207.61 lakhs was lodged with Shipping Corporation of India (SCI) as the damage had occurred during the shipment of the consignment. SCI, however, accepted liability for Rs.24.06 lakhs only being the carrier's liability.

The Management stated (December 1993) that the preliminary claim of Rs.207.61 lakhs lodged on SCI, included anticipated customs duty of Rs.47.42 lakhs and incidental charges amounting to Rs.4.07 lakhs. Since the customs duty payable was more than the disposable value of the damaged drums, the drums were abandoned in favour of the Customs authorities.

Thus, due to lack of proper control over the premium deposit account and failure to furnish the declaration of the cargo to the NIC in time, the insurance cover could not be obtained and the Company had to suffer an avoidable loss of Rs.124.41 lakhs (after setting off unpaid premium).

The matter was reported to the Ministry in March 1994; their reply has not been received (December 1994).

NATIONAL THERMAL POWER CORPORATION LIMITED

15.2 Contingency Coal Handling Plant

Contracts for a coal handling plant (CHP) for Vindhyachal Super Thermal Power Project (VSTPP) were awarded to Garden Reach Shipbuilders and Engineers Limited (GRSE) and Backau Wolf India Limited in 1984 at a total cost of Rs.40.61 crores with February 1987 as the scheduled date for completion of trial runs. The scheduled date for commissioning of the first unit of the Power Project was June 1987.

GRSE could not complete the works relating to CHP by the scheduled date for completion of trial runs and the crusher house and track hoppers were not expected to be ready before May/June 1988. Action for the setting up of a contingency CHP was initiated in June 1987 i.e. after the lapse of four months from the scheduled date for completion of trial runs of CHP. The bids for supply, erection and commissioning of a contingency CHP on limited tender basis were invited in October 1987 and the work was awarded on 27th January 1988 to Firm 'A' at a revised price of Rs.48.28 lakhs (supply portion Rs.35.56 lakhs and erection

portion Rs.12.72 lakhs). The scheduled date of commissioning of the contingency CHP was 31st May 1988.

The contingency CHP was commissioned on 30th September 1988 at a total cost of Rs.53.89 lakhs (supply portion Rs.38.92 lakhs and erection portion Rs.14.97 lakhs). This was after the date of commissioning of the main CHP in July 1988. The Company could not utilise the contingency CHP and the very purpose of installing the contingency CHP was defeated.

The Management stated (September 1993) that owing to non utilisation of contingency CHP at VSTPP it had been shifted to Talcher Super Thermal Power Project (TSTPP) in May 1993, where the facility would be put to use.

In spite of the contractor's failure to commission the contingency CHP by the scheduled date at VSTPP the same firm was again engaged at Talcher for the installation of the contingency CHP at TSTPP at a total contract price of Rs.37 lakhs.

The expenditure of Rs.53.89 lakhs incurred in the setting up of the plant at VSTPP remained unproductive for about five years. In addition the Company had to spend an amount of Rs.37 lakhs for the reinstallation of the dismantled plant at TSTPP. Improper planning also resulted in the expenditure of Rs.14.97 lakhs incurred on erection of the contingency CHP at VSTPP being rendered infructuous owing to its subsequent dismantling.

The matter was referred to the Ministry in February 1993; their reply has not been received (December 1994).

CHAPTER 16

MINISTRY OF RAILWAYS

INDIAN RAILWAY FINANCE CORPORATION LIMITED

16.1 Loss of interest

Indian Railway Finance Corporation Limited (IRFC) floated Rs.250 crores of 10 percent (tax free) Railway Bonds to augment the resources for procurement of assets to be given on lease to the Railways. The public issue which was closed on 7th March 1987 was oversubscribed by Rs.309.40 crores. The Government permitted IRFC to retain the oversubscribed amount by private placement of secured, redeemable non-convertible bonds at 9 per cent (tax free) interest. The bonds were allotted by IRFC on 15th April 1987. According to the Company the permission of the Stock Exchange was received on 23rd April 1987.

IRFC had obtained permission from the Controller of Capital Issues for floating the bonds in January 1987, but had not chalked out any programme for utilisation/investment of the funds. Consequently the funds remained in a current account not bearing any interest, until IRFC deposited Rs.500 crores and Rs.50 crores with the Reserve Bank of India (RBI) on 16th May 1987 and 21st May 1987 respectively in Public Deposit Account bearing interest at the rate of 10 percent per annum. The remaining amount of Rs.9.40 crores was stated to have been utilised towards bond issue expenses.

Thus, due to delay in investment of funds, IRFC had been put to loss of interest amounting to Rs.338.34 lakhs as Rs.500 crores and Rs.50 crores remained idle from 23rd April 1987 (date of permission from Stock Exchange) to 15th and 20th May 1987 respectively.

The Management stated (February 1990) that IRFC had raised money from the capital market for the first time and the Ministry of Railways in consultation with the Ministry of Finance could decide only on 15th May 1987 to keep the

money in Public Deposit Account with RBI. The Management further stated that according to Government guidelines such funds could not be utilised for purposes other than those for which the money was raised and accordingly short-term deposit with the scheduled banks was also not advisable.

The Ministry endorsed the Management's view and stated (October 1993) that it being the first series of bonds floated by IRFC, formulation and adoption of a procedure, in advance, for utilisation of funds for a purpose other than that envisaged could not be visualised before hand particularly in respect of the oversubscribed amount.

The replies of the Management and the Ministry are not tenable as the fact that the bonds were oversubscribed by Rs.309.40 crores was known to IRFC on 10th March 1987 itself. IRFC lost the interest of Rs.338.34 lakhs due to delay in investment of funds after the approval of the Stock Exchange had been obtained.

KONKAN RAILWAY CORPORATION LIMITED

16.2 Irregular award of works

A limited tender enquiry for "Earth work in forming banks and cutting and construction of Minor bridges" of Udupi-Mangalore section was issued to prequalified contractors in July 1990 and in response 12 offers for Reach III and 14 offers for Reach VII were received. The Tender Committee after considering the offers, recommended passing over the 3 lowest offers for Reach III and the 5 lowest offers for Reach VII.

Regarding Reach III the two lowest offers were considered unworkable while the third lowest offer at Rs.210.65 lakhs was passed over on the ground that the bidder had been recommended for a work in Reach II for Rs.145.03 lakhs. In regard to Reach VII the first, second and fourth lowest offers were considered unworkable while the third and fifth lowest offers were passed over on the ground that the bidders had already been awarded works in Reaches III/V and Reach I respectively.

In November 1990 the works in Reaches III and VII were awarded to a contractor of Bangalore (the 4th lowest) and a contractor of Hyderabad (the 6th lowest) for Rs.214.60 lakhs and Rs.158.12 lakhs respectively.

Had the awards been reversed and the contractor from Bangalore awarded the work in Reach VII and the contractor from Hyderabad the work in Reach III instead, the Company would have saved an amount of Rs.18.83 lakhs.

The Management while admitting the mistake in passing over the third lowest offer for Reach III of Rs.210.65 lakhs on the ground that the bidder had been recommended for works in Reach II stated, with the approval of the Railway Board, in January 1994 that awarding of contracts in the reverse order was not possible as the rates of both the contractors were unworkable.

The reply of the Management is not tenable as these two contractors had been passed over to avoid further loading of major works with them and not on the ground that their rates were unworkable. Further the overall rates, ie. percentage below the estimated value of the works, offered by these two contractors could also not be considered as unworkable as almost the same overall rates were accepted by the same Tender Committee for Reach V on the same day.

16.3 Avoidable expenditure in a construction contract

Limited tender enquiry for construction of four major bridges in Udupi-Bhatkal section of Konkan Railway was issued in January 1991 and in response five offers were received. The lowest offer of Rs. 289.90 lakhs was from Contractor `L' of Madras, a company doing a number of works in different parts of India and abroad. However, the Tender Committee in April, 1991 rejected the offer on the grounds that Contractor `L' had already been awarded a contract for construction of 2 major bridges costing Rs.390.54 lakhs by the Company; in addition, Contractor `L' had also been recommended for award of a contract for construction of 5 major bridges costing Rs. 389.98 lakhs and it was therefore not advisable to load them with another 4 bridges and also that their general ability for construction of major bridges was yet to be proved in the field.

The second lowest offer of Rs. 311.93 lakhs received from Contractor `A' of Bombay was also rejected on similar grounds because the Tender Committee felt it necessary to bring other agencies into the field of major bridge works. The third lowest offer of Rs. 322.76 lakhs received from Contractor `C' of Cochin was considered by counter offering certain changes with the result that their offer came down to Rs. 304.52 lakhs which was accepted. But no effort was made by the Company to bring the rates at par with that of the lowest tenderer i.e. Contractor `L' as had been done on other occasions.

The Management with the approval of the Railway Board stated in December 1993 that wherever the rates quoted by the lowest tenderer were found unworkable, those rates were not counter offered; further, the lowest tenderer was passed over as they were already overloaded with work.

The reply is not tenable as the lowest tenderer was rejected not on the ground that their rates were unworkable, but because of their considerable work load. Further, the Company awarded two more contracts of Rs.393 lakhs and Rs.668.62 lakhs to Contractor `L' in November,1991 and February 1992 i.e. within less than a year of the award of the present contract to a higher bidder in April 1991.

Thus, the acceptance of the third lowest tender at Rs. 304.52 lakhs resulted in avoidable expenditure of Rs. 14.62 lakhs.

16.4 Award of works contracts in Kudal Zone

A tender enquiry for the work "Earthwork in embankment and cutting and construction of minor bridges" of Kudal Zone was issued in February, 1991 and in response 17, 16 and 19 offers for Reaches II,III and VII respectively were received. While evaluating the offers the Tender Committee adopted following norms:

i) The lowest workable offer should be preferred,

ii) Individual item rates should compare well with unit workable rates,

iii) Only one reach should be given to one contractor initially so as to assess the contractor's capabilities and performance,

iv) Negotiations are to be avoided for saving time and facilitating speedy execution.

The Tender Committee made the following recommendations:

A) **Reach No. VII**

The lowest offer of M/s `E' of Vishakapatnam of Rs.477.97 lakhs was passed over on the ground that the bidder was already awarded a similar work in Reach V of Karwar Zone. The second lowest offer from M/s `RM' of Kolhapur of Rs.489.21 lakhs was also rejected as the bidder's rates for certain selected items were found unworkable. The work was ultimately awarded to the third lowest tenderer M/s `RN' of Hubli at Rs.489.42 lakhs.

B) **Reach No. III**

The lowest offer from M/s`RN'of Hubli of Rs.255.96 lakhs was passed over on the ground that the bidder was already awarded a similar work in Reach VII. The work for this Reach was awarded to the second lowest tenderer M/s `P' of New Delhi for a total of Rs.257.81 lakhs. The additional expenditure when compared with the lowest tenderer works out to Rs.1.85 lakhs . After awarding the work the quantities of certain items were increased raising the value of the contract to Rs.421.43 lakhs. Taking into account the revised quantities, the additional expenditure when compared with the rates offered by the lowest tenderer works out to Rs.19.15 lakhs.

C) **Reach No.II**

The two lowest offers from M/s `P' of New Delhi and M/s `RN' of Hubli of Rs. 384.23 lakhs and Rs.394.81 lakhs respectively were passed over on the ground that the bidders were already awarded similar works in Reach III and Reach

VII respectively. The work was awarded to the third lowest tenderer M/s `B' of Hyderabad at Rs.400.95 lakhs.

In this connection the following observations are made :

a) The tenders for all the three Reaches were opened on 20.03.1991 and were evaluated by the same Tender Committee on 25.03.1991 . The rates quoted by all the tenderers for the three Reaches under consideration were available with the Tender Committee. Had they accepted the lowest acceptable offers of M/s `P' and M/s `RN' for Reach II and III respectively the Company could have saved an amount of Rs.18.57 lakhs (later increased to Rs.35.87 lakhs).

b) In respect of Reach VII, the lowest offer from M/s `E' was passed over on the ground that they were already awarded one similar work in Karwar Zone; however, in Konkan Railway Corporation Ltd, several individual contractors were awarded more than one work (upto 4-5 works) of similar nature without applying the norm of only one work to one contractor. In Kudal Zone itself M/s `RN' were awarded similar works in Reach IV (on 29.07.91) and Reach V (on 1.08.91) in addition to the work in Reach VII (on 6.04.91). Thus passing over the lowest suitable offer from a prequalified contractor in Reach VII does not appear justified.

c) The Company has incurred an avoidable expenditure of Rs.47.32 lakhs by not awarding the works to the lowest prequalified tenderers in Reaches II, III and VII of Kudal Zone.

When the matter was referred to the Management and the Railway Board in August 1994 it was stated that if the lowest rates for Reach II & Reach III been accepted, the Tender Committee would have had to go upto 7th lowest tenderer in Reach VII as all the lower tenderers were ready awarded works in Kudal or other Zones and in that case the combined cost of the three offers would have been Rs.1155.16 lakhs. It was further stated that the Committee had rightly chosen that combination of offers which cost the least. However, this is not tenable as the Company was not particular about the norm`one work to one contractor' as a general rule.

16.5 Avoidable expenditure on award of contracts

Tender enquiry for the work "Earthwork in forming banks and cuttings and construction of Minor Bridges" of Panaji Section was issued in December, 1990 and in response 6, 5 and 8 offers for Reaches VII, VIII and IX respectively were received. The Tender Committee, in January 1991 while evaluating the offers, adopted the following norms:

a. The lowest workable offer should be preferred;

b. Individual item rates should compare well with workable rates;

c. Only one reach should be given to one contractor initially till their performance is established; and

d. Negotiations are to be avoided to save time and ensure speedy implementation of the project.

The award of works on the recommendations of the Tender Committee was made as follows:

A. Reach No.VII:

The lowest offer of Contractor `M' of New Delhi was accepted at Rs.266.76 lakhs.

B. Reach No.VIII:

The lowest offer of Contractor `M' of New Delhi of Rs.170.39 lakhs was passed over on the grounds that the bidder's rates for certain selected items were found unworkable and they had already been recommended for award of work in Reach VII. This work was awarded to the second lowest tenderer Contractor `R' of Ponda at Rs.262.04 lakhs.

C. Reach No.IX:

The two lowest offers from Contractor `M' of New Delhi and Contractor `R' of Ponda of Rs.187.96 lakhs and Rs.217.05 lakhs respectively were passed over on the grounds that Contractor `M''s rates were low and unworkable except for one item and Contractor `R''s rates were too high; further these 2 contractors had been recommended for award of work in Reaches VII and VIII. The work was awarded to the third lowest tenderer, Contractor `MV' of Hyderabad at Rs.241.53 lakhs.

In this connection, the following observations are made:

(a) The rates for individual items adopted for assessing the estimated value of these works were not based on any analytical study. Rates for certain major items of work were reduced in arriving at the workable rates adopted while evaluating the bids. These rates were also not supported by any detailed rate analysis and as such were unscientific. Further, the fact that the Company adopted still lower rates as basic rates for similar items in the tender schedules subsequently issued by them in July 1991 for other Reaches of Panaji Section indicated the fact that the workable rates fixed by them in evaluating these tenders were unrealistic and on the higher side.

(b) The Company subsequently accepted even lower rates, than the rate quoted by Contractor 'M' in December, 1990 for Reaches VIII and IX, in respect of works for other Reaches awarded to other contractors.

(c) The norm of 'one work to one contractor' was also not followed strictly by the Company. Several individual contractors were awarded more than one work (upto 4 or 5 works) of similar nature at a point of time.

When the matter was referred to the Management and the Railway Board in July 1994, they admitted that only a rough estimate was made at the time of tender enquiry and based on a review of the tendered rates, rates for certain items were reduced subsequently. They further stated that the Company had to make sure that

the contractors chosen for the works were dependable, that the rates quoted by them were reasonable and that they had adequate capacity to carry out the works in time. They added that if the works of all the Reaches had been awarded to the lowest tenderer, Contractor `M', it would have been a major blunder as he could not have handled all the three Reaches in addition to the works in other areas.

The reply is not tenable as tender enquiries were issued to only prequalified contractors who had been assessed and approved after evaluating their suitablity, capability, dependability, etc. Further, the Company awarded two more works of similar nature amounting to Rs.775.47 lakhs to Contractor `M' in Panaji Section in April and November 1991 and five more works amounting to Rs.1250.75 lakhs in Ratnagiri (South) Zone during May 1991 to August 1991.

Thus, rejection of the bids of prequalified contractors, on the basis of unscientific and unrealisitic rates, by the Company resulted in an avoidable expenditure of Rs.304.48 lakhs in Reaches VIII and IX of Panaji Section.

16.6 Irregular Award of a Contract

A limited tender enquiry for "Earthwork in forming banks and cuttings and construction of minor bridges in Reach II" of Udupi Zone was issued in July 90 and in response 15 offers were received. The Tender Committee, after considering the offers, recommended passing over the three lowest offers on grounds of unworkability of rates quoted by the tenderers. The 4th and 5th lowest offers were passed over as these tenderers were already awarded similar works in other Reaches of Udupi Zone. The sixth lowest offer of Contractor 'V' of Alleppey, at a cost of Rs.152.50 lakhs was accepted.

The successful tenderer had quoted a uniform rate of Rs.370 per 10 cum for all the 3 items of earthwork in cutting viz., ordinary soil, soft rock, and hard rock instead of a percentage of the Company's estimated rate of Rs.160, Rs.541 and Rs.561 respectively as provided in tender documents. This uniform rate was accepted by the Tender Committee ignoring the Railway Board's instructions of January 1988 and the stipulation in the tender notice that the tenderers should quote a percentage rate at

par/above/below the rates indicated by the Company. It is pertinent to note that in another tender enquiry for a similar work in Reach X of the same zone called in January 1991, the lowest offer of a prequalified tenderer was passed over on the ground that the bidder had quoted one and the same rate for all the 3 items of earthwork in cutting. Thus acceptance of one and same rate for all the three categories of earthwork was not in order.

On completion of the work, Contractor 'V' had executed 2,97,879 cum of cutting in ordinary soil for Rs 215,66,681 as against the Company's estimated quantity of 90,000, 90,000 and 45,000 cums of cutting in ordinary soil, soft rock and hard rock respectively. The incorrect estimation of work was due to not following the Railway Board's instructions (September, 1978) for carrying out adequate soil tests for ensuring proper estimation of quantities given in the tender schedule. Acceptance of a uniform rate for all the three categories of cutting and non execution of costlier items of work of cutting in soft rock and hard rock resulted in vitiation of the tender acceptance; the successful tenderer 'V' whose bid was 6th lowest based on estimated quantities of work became 14th lowest on the basis of actual execution of work.

The Management with the approval of Railway Board in their reply in December 1993, stated that the Company had been following Railway Board's instruction of January 1988 and the tender in question with the same rate for all items of cutting was accepted as an exception. They further stated that Contractor 'V' had actually executed the work in all the 3 categories of cutting, but in order to reduce computation and paper work, the site engineers had brought the entire quantity of earthwork under the category of cutting in ordinary soil, pending final classification on completion of work. Further, soil investigation was made to assess approximately the quantities indicated in the tender schedules.

The reply is not tenable as the site engineers are required to maintain the basic records at the site of work on the basis of actual work executed. Measurement sheets are very important documents and any laxity in recording correct entries of work actually executed would leave scope for manipulation at a later date. Further, enquiries revealed that no soil investigation was carried out.

Thus due to failure in estimating the quantities of work accurately by conducting soil investigation and acceptance of a uniform rate for three categories of earthwork in cutting in contravention of the instructions of the Railway Board on the subject has resulted in vitiation of the award of work. Had the work been awarded at the rates estimated by the Company, the amount payable for the quantities actually executed would have been Rs 112,76,955. Thus, the award of the work to Contractor 'V' resulted in an avoidable expenditure of Rs.102.90 lakhs.

CHAPTER 17

MINISTRY OF STEEL

HINDUSTAN STEELWORKS CONSTRUCTION LIMITED

17.1 Avoidable payment of Port Rent

The Company placed an import order for Rs.236.91 lakhs on a supplier from Romania for equipments to be installed in Durgapur Steel Plant against a turnkey contract. A letter of credit for Rs.176.03 lakhs (80% value of import order) was established on 12th March, 1992 through SBI, Patna. The equipments despatched on 4th June, 1992 reached Calcutta Port on 14th July, 1992. Although the Company was aware that in order to avail of the concessional rate of customs duty on `project import', the import contract was required to be registered with the Customs Department, it took up the matter with the Ministry of Steel on 16th July,1992 (i.e.2 days after the arrival of equipments at Calcutta Port) for obtaining sanction of the import as `project import' for availing of the concessional rate of customs duty. The sanction was given on 24th August, 1992. The Company requested the Customs authority on 24th September,1992 for registration of the `import contract' under `project import' which the Customs authority did on 19th October, 1992. The bill of entry was filed by the Company on 21st October,1992 and the duty was assessed on 23rd October,1992.

The equipment was cleared between 20th November,1992 and 4th December,1992. Thus, there was a delay of about 4 months in clearance of the equipments for which Company had to pay port rent amounting to Rs.28,45,985. The belated action of the Management resulted in this avoidable payment.

The Ministry stated (December, 1994) that the Company took action for obtaining funds, retirement of documents from the bank and registration with Customs Authorities, but due to unavoidable circumstances the payment of port rent became unavoidable. However, the Company had been instructed to ensure that such cases do not occur in future.

The reply of the Ministry is not tenable as the Company did not take timely action to obtain the sanction of the Ministry for availing concessional customs duty. The Company applied to the Ministry for categorisation of the import as "project import"in July, 1992 whereas they could have done so immediately after the letter of credit was opened (March, 1992)

IISCO LIMITED

17.2 Delay in retubing of condensers

In September 1987, the Power Engineering Department of Burnpur Works initiated, as part of a 7 year survival plan, a proposal for re-tubing of the condensers of Turbo Alternators No.1 and 2 of Power House in October,1988 and November, 1988 to avoid the recurring problem of leakage in the condensers causing poor heat transfer, low vacuum and higher steam consumption per unit of electricity generated. The retubing was expected to result in a saving of 6 percent(16950 tonnes per year) in steam consumption. An order was placed on a supplier in August,1988 for procurement of 6132 tubes.

The tubes costing Rs.26.44 lakhs were received in March,1989 but could not be used in the absence of ferrules required for fitting the tubes in the condensers. The ferrules (10800 in number) were received between December, 1989 and October,1990 after an order was placed in June 1989. However, the retubing of condensers in Turbo-Alternator No.1 and 2 was got done only in December 1993/January 1994 . If the retubing had been undertaken when the tubes were received in March 1989, the saving in consumption of steam at 16950 tonnes per year during the period from April 1989 to November 1993 would have resulted in a cost saving of Rs 1.77 crores.

The Ministry stated in January,1994 that since there was a time gap of more than three years between the initiation of the proposal in September,1987 and the receipt of total equipments (including ferrules) in October,1990, the Company thought it prudent to have a relook at the proposal before incurring further expenditure. A Committee was formed to re-examine the whole proposal afresh

which recommended in April,1991 that total replacement of condenser tubes may be kept in abeyance and reviewed at the time of the next campaign of overhaul. It was however noticed that the original order of January 1989 placed on a firm for carrying the retubing was revived by the Company in August 1993 after Audit had queried the non-use of tubing procured for that purpose.

The decision to defer the retubing after the tubes and ferrules had been procured proved to be injudicious.

METAL SCRAP TRADE CORPORATION LIMITED

17.3 Delivery of materials without financial security

According to the canalised import procedure the Company placed a purchase order in February 1990 on M/s Subah Gas Industries, Malaysia for supply of 20000 $\pm$10% tonnes of hot briquetted iron at US $ 162 per tonne and issued sale orders in March 1990 to 17 parties indicating, inter-alia, the quantities allotted to them and requiring the payment to be made by opening letters of credit in favour of the Company. The materials arrived at the discharging port, Bombay, on 11th April 1990. On 24th April 1990 the Company reallocated 455 tonnes of the imported material to a firm of Bhopal after cancellation of its earlier allotment to another party and permitted endorsement of the documents of the original allottees in favour of the firm. The Company failed to require the firm to open a letter of credit in favour of the Company for the value of material allotted to it.

On payment of Rs.33,203 as services charge (2.5% of the value of goods) the firm received the documents for 455 tonnes from the Company's Bombay Office and cleared the goods by 14.5.1990. It was only in January 1991 that the invoice for the material supplied was sent to the firm for Rs.14.36 lakhs which remains unrecovered so far (October 1994). The firm had closed down since December 1993.

The Management stated in October 1994 that the firm had agreed to make the payment in February 1991 but apparently because of financial constraints could

not do so. It was further stated that a winding up petition had been filed against the firm before the High Court and the Company was hopeful of recovering the dues as and when the firm resumed its operation or it was wound up by the Court's order.

The Management also stated that when the allotment was made there was a balance of Rs.7 lakhs with a partly negotiated letter of credit from the firm with the Company but its validity had subsequently expired. The Management added that the system of handing over documents to allottees had since been revised. The Ministry stated (December, 1994) that the loss should be considered as having been incurred in the process of taking a reasonable commercial risk.

The fact remained that a loss of Rs.14.36 lakhs has devolved on the Company due to delivery of imported materials without adequate security from the allottee and due to delay in sending the invoice for the materials supplied to the allottee.

NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

17.4 Failure to invoke performance guarantees

The Company purchased both from Indian and foreign firms 138 Tricone Rock Roller Bits during 1989-90 and 1990-91 for its Bacheli Unit. The purchase orders stipulated that the suppliers would guarantee performance of the bits for a specified average meterage and make good any shortfall in the guaranteed meterage by supply of replacement bits, free of cost on FOB terms. Suppliers were also required to furnish bank guarantees from which the Company was entitled to recover prorata amounts for non-fulfilment of specified meterage in case the free replacement was not made.

From the performance of the 114 bits used upto October 1992, it was observed that there were shortfalls ranging from 8.17% to 57% in the guaranteed performance and proportionate cost of the shortfalls worked out to Rs.59.02 lakhs.

The Company did not invoke the bank guarantees and they lapsed. No fresh bits had also been supplied so far (March 1993). The Company thus incurred an infructuous expenditure of Rs.59.02 lakhs and failed to recover the amount from the suppliers.

The Ministry stated in February 1994, that it had no comments to offer on the observations made by Audit.

17.5 Under utilisation of cone crushers

The Company decided in September 1989 to purchase and instal at Bailadila-5 two 1200 mm cone crushers of a total capacity of 0.75 lakh tonnes per month with a view to meet part of the additional demand of 0.84 lakh tonnes per month for graded iron ore. This was to be a temporary measure for three to four years by which time it was expected that the regular tertiary crushers would be installed to crush all the ore produced at Bailadia-5. It was anticipated that when the regular tertiary crushers were in operation at the project, the two cone crushers would be shifted to another unit. Accordingly two cone crushers were procured from an indigenous supplier at a cost of Rs.195.11 lakhs; one was commissioned in July 1990 and the other in January 1991. The graded ore produced by the cone crushers during the years 1990-91 and 1991-92 was only 0.48 lakh tonnes and 0.64 lakh tonnes as against the total capacity of 9.00 lakh tonnes per annum. With the commissioning of the tertiary crusher in March 1992, the two cone crushers were no longer required and were lying idle since then.

The Ministry in its reply (August 1994) while conceding the low production from the cone crushers, stated that the Company earned an additional revenue of Rs.1.72 crores from export of Calibrated Lump Ore (CLO) to Malaysia, besides realising premium income from sale of exim scrips to the tune of Rs.32.75 lakhs. Thus, the capital cost of the equipment was fully recouped. The reply of the Ministry is, however, not tenable as the Company had not fully recovered the capital cost of the equipment as claimed; Rs.125.25 lakhs remained to be recovered. Further the additional earning of premium income out of exim scrips was not specific to export of graded ore only; it was applicable even if lump ore and fine

ore were exported. The Ministry, however, attributed the low production from the cone crushers and their inadequate utilisation in physical terms to the interplay of many factors. It was stated that random pattern of distribution of lumps/CLO in the stock pile area often took up unnecessary space and also delayed loading of wagons. It was further stated that the production of CLO had to be curtailed as the common stock pile area remained full on account of inadequate placement/availability of rakes from the Railways for outward movement.

The Ministry further acknowledged that there was scope in the Company for better stockpile Management and fine tuning in the production plans and railway wagons loading. Admittedly the system had in-built inefficiencies due to the difficulty in exact matching of storage, production and rail evacuation.

Though it was stated that action had since been initiated by the Company to relocate cone crushers at their Panna Diamond Mines, no final decision had been taken.

The fact thus remains that the crushers procured at a cost of Rs.195.11 lakhs were grossly under utilised and further had not been shifted out since March, 1992 as planned (December 1994).

17.6 Loss due to failure of braking system

The Company placed in January 1987 an order on a foreign firm for the supply, installation and commissioning of a "Modified Braking System" at an FOB price of US $ 1,15,193 for replacement of their existing modulated braking system. The contract provided for a warranty period of 18 months from the date of despatch of equipment, or 12 months from the date of commissioning, whichever was earlier. Equipment was shipped between April 1987 and June 1987 and the supplier advised the Company in October 1987 to take up some advance work before the arrival of their experts for commissioning. The advance work was completed by May 1988.

A mutually suitable date for the firm's expert to commission the equipment at site was not found for nearly a year and the system was finally commissioned in

April 1989, by which time the warranty period had expired. The Company did not seek extension of the warranty period. Problems were encountered while operating the brakes and the brakes finally failed in March 1990.

The Company had appointed (July , 1985) consultants to suggest improvements for achieving higher levels of production but did not seek their advice on the adequacy and suitability of the Braking System before procurement. On the suggestions of the consultants who inspected the failed braking system in March 1990 and found it inadequate, the brakes were replaced by old modulated brakes in April 1990. The Company did not even consider it necessary to refer the inadequacy/failure of the system to the suppliers,so as to obtain rectification/modification or its replacements.

Thus, acceptance of an inadequate Braking System, which subsequently failed, resulted in an infructuous expenditure of Rs.45.56 lakhs.

The observations of Audit were referred to the Ministry which in its reply (March 1994) stated that it had no comments to offer.

STEEL AUTHORITY OF INDIA LIMITED

17.7 Infructuous investment on lime dust injection plant.

Research and Development Centre for Iron and Steel (RDCIS), a unit of Steel Authority of India Limited (SAIL) took up a project in December, 1982 for setting up a Lime Dust Injection (LDI) Plant at Blast Furnace-I of Durgapur Steel Plant (DSP) at a cost of Rs.460 lakhs. The technology introduced and tested by RDCIS in collaboration with Indian Institute of Technology, Kharagpur, was aimed at increasing the furnace capacity, decreasing the coke rate and improving the hot metal quality. Based upon a project report submitted by MECON in August, 1981, an agreement was entered into in August, 1983, with a company in Bombay for the turnkey supply of the LDI Plant with a commissioning time schedule of 20 months from the date of commencement of contract which was February, 1983.

The LDI Plant was finally commissioned in January, 1989, after an abnormal delay of 51 months as against scheduled commissioning in October, 1984. In the meantime, the health of Blast Furnace-1 deteriorated rendering the injection of lime dust into it infeasible. A Review Committee and the Plant Management, while admitting that the LDI scheme did not bear expected results, mentioned in March, 1994 that LDI had lost its originally envisaged relevance due to drastic improvement in the technological status of various inputs and operating parameters. Further, during the reconstruction of Blast Furnace-I, a part of the LDI system was removed and scrapped rendering the revival of the Plant, a remote possibility. However, certain equipments worth Rs.1.6 crores are being utilised by DSP elsewhere for other purposes. The ultimate objective, therefore, of realising benefits in the operation of the blast furnace in terms of productivity, coke rate and metal quality by injecting lime dust could not be achieved.

While admitting the facts, the Ministry stated (December,1994) that the project was a developmental effort which had enabled RDCIS to develop knowledge of equipment design and operational practices for the solid injection system in general. The Ministry added that RDCIS and SAIL Plants would be benefitted with the knowledge and expertise gained in the process. The reply is not tenable in as much as the project could not be put into actual operation (due to inordinate delay) and, therefore, the efficacy and the success of the project could not be established. Hence, the investment of Rs.2.78 crores became infructuous. The Ministry also stated that SAIL had been advised to tighten their monitoring system so as to avoid delays in future.

Thus, due to undue delay of 51 months in completion of the project, an investment of Rs.2.78 crores (out of the original investment of Rs.4.38 crores) incurred on setting up of Lime Dust Injection Plant became infructuous.

17.8 Non-replacement of valves

In February,1985 Bokaro Steel Plant placed an order for 250 MAR Valves on an Austrian company at a total price of Austrian Schilling(AS) 97,17,500. After getting the order, the supplier indicated that there had been a typographical error at

the offer stage, and the correct price was AS 1,40,250 per piece for 100 pieces and AS 1,38,870 per piece for 250 pieces. The Management accepted the corrected price in September,1985 but reduced the quantity to 70 at AS 138,870 to keep the value of the Valves within the limit of the original total purchase price.

The supplier despatched 70 MAR Valves in batches and drew the payment amounting to AS 99,07,400 (Rs.99.20 lakhs) through a Letter of Credit. Out of 70 Valves received between April and November,1986, 39 Valves valued at Rs.102.42 lakhs were found damaged and unserviceable. The matter was taken up with the supplier to replace the damaged Valves, but the supplier neither replaced the damaged Valves nor reimbursed the cost thereof.

Despite the advice rendered(October, 1986) by the Chief Legal Adviser of the Company (SAIL) to the Management to initiate action for arbitration, the Company desisted due to the fear of a possible counter claim from the supplier and stoppage of replacement of damaged Valves. Thus no action was initiated and the claim subsequently became time barred. The Management's decision not to initiate arbitration proceedings was despite the clear breach of contract by the Austrian supplier.

The Ministry, while admitting the facts, stated in November, 1993 that between the first and the second lot of Valves the supplier had sent a consignment reportedly of MAR Valves but actually containing steel bars and rods which had been done to enable the supplier to draw funds from the Letter of Credit as Valves were not ready for despatch. The Ministry also mentioned that the supplier turned out to be a "hoax" and when the Management reconsidered the matter in 1990 and decided to go in for arbitration it was too late. The Ministry added that SAIL had issued instructions (September,1993) to all its Steel Plants/Units/Subsidiaries to avoid recurrence of such cases by ensuring close interaction with the Corporate Law Department of SAIL.

The Company lodged three claims from April, 1986 to April, 1987 for 20 Valves amounting to Rs.40.43 lakhs on the insurers and received the entire amount.

Had the Management taken recourse to arbitration in time, the loss of Rs.63.64 lakhs (Rs.104.07 lakhs including Rs.1.65 lakhs excess drawn by supplier - Rs.40.43 lakhs) could have been avoided.

17.9 Use of Nut Coke in Soaking Pits

A soaking pit in a steel plant provides heating facilities for steel ingots. The pits are lined with refractory bricks and the bottom is made of coke breeze/pearl coke of the size +10 mm -20 mm for efficient heating of the ingot bottom.

Till 1984-85 Rourkela Steel Plant was using only pearl coke in the soaking pits. During the years 1985-86 to 1993- 94 the plant used 42,275 tonnes of nut coke of +20mm -40 mm, which was required for the blast furnaces in the soaking pits. As nut coke was costlier than pearl coke with no additional benefit, its use in the soaking pits has resulted in extra expenditure of Rs. 354.71 lakhs.

The Management stated (June 1990) that pearl coke in the size range of +10mm -20mm as per ISI specification, is not a regular arising in the plant; only a small quantity arises by screening the mixed coke dump in the plant, hence the entire quantity required for bottom making process of soaking pits was met by supplying nut coke (+20 mm -40 mm) and pearl coke (+10 mm -20 mm).

The Management's contention is not tenable in view of the fact that sufficient quantity of mixed coke arising was available in the plant in all the years, out of which the required quantity of pearl coke could have been obtained by screening.

The Ministry while admitting that the view of Audit was theoretically correct has stated (February 1994) that the plant had not found it economical, because of the cost involved in transportation of leftovers, to screen the mixed coke for getting the required quantity of pearl coke to be used in the soaking pits.

The Ministry's contention that the plant had not found it economical to screen mixed coke in view of the cost involved in the transportation of leftovers is

not tenable as the monetary benefits derived from sale of nut coke (+ 20 mm size) obtained in the process of screening mixed coke would more than off set the cost of screening (even at the rate being paid presently to contractors) and the cost of transportation of leftovers. Further, other steel plants of the Company were not using nut coke in soaking pits.

The extra expenditure of Rs.354.71 lakhs was thus avoidable.

17.10 Avoidable expenditure on a crane.

On the recommendation of technical consultants, M/s. MECON, a turnkey contract was awarded to a company of Calcutta on 29th July, 1987 for installation at a cost of Rs.20 crores of a Vacuum Arc Degassing (VAD) Unit in Steel Melting Shop (SMS)-II of Bhilai Steel Plant (BSP) as a part of its 4 million tonnes expansion programme. According to the technical specification mentioned in the contract, the height of the equipment/transformer building of the VAD unit was to be maintained at the level of (+) 12700 mm so that existing two overhead cranes could be easily moved in VAD Unit area. However, the top level of the transformer building was raised by the contractor to (+) 13400 mm which prevented the movement of the existing two overhead cranes to VAD Unit area. SAIL accepted the situation as construction was in an advanced stage and there was no choice left. In order to meet the requirement of VAD Unit an order for one additional 50/10 T EOT crane was placed on a public sector undertaking of Calcutta on 20th February, 1990. The main parts of crane were received in a phased manner during the period from June, 1992 to January,1993 and the total payment made to the supplier upto 31st December 1994 was Rs.88.55 lakhs.

SAIL held the contractor responsible (October,1989) for raising the height; the contractor refuted the charges in November, 1989 stating that the drawings were approved by the consultants M/s. MECON. According to MECON (August, 1989) the increase in height was indicated for the first time in a revised drawing received in March, 1989 when the construction work had already progressed to an advanced stage and as such there was no choice left. The Management also conveyed its

dissatisfaction to MECON over the quality of the consultancy service rendered by them.

Thus, due to lack of proper coordination and supervision of the work, SAIL had to incur an avoidable extra expenditure of Rs.88.55 lakhs.

The Ministry stated (December, 1994) that the raising of the height of transformer building was a technical necessity in view of the constraints faced in the location area and as such the installation of the additional crane was a technical necessity. The Ministry however conceded that the Management was left with no other choice but to install the additional crane as the fact about the increase in the height of the transformer building was revealed by the contractor at a very late stage. The Ministry added that a Standing Committee of SAIL had held the contractor responsible for the additional investment and recommended a penalty of Rs.14.22 lakhs under a package deal which was under the process of approval of the Managing Director BSP (December, 1994)

17.11 Non-commissioning of a testing machine

In order to ensure the internal soundness of rails supplied to the Railways, a proposal for installation of an On-line Ultrasonic Rail Testing Machine was initiated in November, 1987 by Bhilai Steel Plant(BSP). The proposal was approved by Chairman, SAIL in August, 1988 and was to be implemented by November, 1989. Accordingly, an order for design, engineering, manufacture, supply, erection, testing and commissioning of an On-line Ultrasonic Rail Testing Machine at a total FOB price of $ 7,23,628 (Rs.1,03,18,935) was placed by BSP on a company of USA in June, 1989, with a delivery period of 8 months..

The purchase order stipulated that the supplier should undertake free replacement of defective items and guarantee all the equipment for workmanship, materials and satisfactory performance for 12 months from the date of commissioning or 18 months from the date of shipment whichever was earlier. However, it did not contain any explicit provision for getting the machine

commissioned or repaired at the risk, responsibility and cost of the supplier in the event of failure on the part of the supplier.

The equipment shipped in March, 1990 was received in Bhilai in May,1990. The supplier's experts who had come for commissioning in May, 1991 and again in December, 1992 failed to commission the equipment successfully. BSP incurred Rs.103.82 lakhs on customs duty, freight, insurance etc. and paid to the foreign supplier, Rs.123.10 lakhs (90 percent) against shipping documents in May 1990 and Rs.12.77 lakhs (10 percent) in September 1990 before the commissioning of the equipment.

Thus, the investment of Rs.239.69 lakhs has remained blocked with consequential loss of interest of Rs.1.92 crores (calculated at the rate of interest paid on cash credit to the bank) upto October, 1994. The equipment has not been commissioned so far (October, 1994). Since the guarantee period has also expired by September, 1991 the possibility of successful commissioning of the equipment by the supplier appears to be remote.

The Ministry stated in July, 1994 that "This has been a case of non-performance of the contractual terms by the supplier which has resulted in non-commissioning of the machine". The Ministry also indicated that the machine supplied by the foreign supplier is of state-of-the-art technology and requisite know how for dealing with such machines is not readily available and BSP was totally dependent on the supplier. Further the supplier had been put on legal notice for non-commissioning of the machine in accordance with the terms of the contract and efforts were being made to get the machine commissioned by Indian experts.

The fact, therefore, remains that the investment (Rs.2.40 cores) made by Bhilai Steel Plant has already yielded no return for more than four years and will continue to be unfruitful till the machine is successfully commissioned, with a resultant loss of interest of Rs.1.92 crores (upto October, 1994).

17.12 Expenditure on documentation and drawings

The reconstruction and modernisation of Blast Furnace 6 (BF-6) of Bhilai Steel Plant which was approved by the Board of Directors of SAIL on 7th January,1989 and by Government on 15th September,1989 was scheduled from April, 1990 to July, 1990 at an estimated cost of Rs. 74.58 crores including Rs. 11.16 crores in foreign exchange.

The reconstruction and modernisation of BF-6 was planned to be carried out on the basis of design, engineering and documentation furnished under a credit agreement dated 22nd May,1985 between the Government of India and the Government of USSR for which an agreement was finalised between Bhilai Steel Plant with M/s Tiazpromexport, Moscow in August, 1988; a contract for engineering and submission of technical documents was entered into on 30th November,1989. According to the contract, the working drawings were to be submitted within 4 months, ordering specifications within 2 months and working drawings for manufacture of equipment within 2 months from the date of opening of a Letter of Authority. However, the Letter of Authority could be established only on 29th January,1990 and as a result the drawings valued at Rs.562.62 lakhs were received by May 1990.

Procurement of equipment and other pre-shut-down activities could not be completed as per schedule due to delay in establishing the Letter of Authority and consequential postponement of supply of drawings and documentation. Meanwhile there was serious deterioration in the production from BF-6 and the Board of Directors decided on 12th April, 1990 to incorporate the minimum changes to the existing structure of BF-6 for which there was adequate preparedness. The scope of work was scaled down without using the Soviet drawings. It was also decided that the design and engineering documentation received under the contract would be utilised in other blast furnaces of the Company as and when opportunity arose. Since there is no proposal for modernisation/reconstruction of Blast Furnace No.4 & 5 of the same capacity as BF 6 even during next two repairs scheduled during the

years 2002 and 2004-2005 respectively, these drawings cannot be put to use in the near future thus rendering the expenditure incurred in their purchase infructuous.

There was also an infructuous expenditure of Rs.41.78 lakhs on materials manufactured by Bhilai Steel Plant on Soviet advice and as required by the drawings which could not be used due to change in the scope of work.

The Ministry while accepting the facts stated in May, 1994 that the Letter of Authority could be established in January, 1990 only as approval from Government of India took a long time. This administrative delay led to late supply of specifications, working drawings and documentation from the Soviet side. Consequently, the action of procurement of equipments and other pre-shut down activities could not be accomplished as per schedule. It further stated that the agreement was made with USSR with a view to share/ transfer of technology and should not be evaluated from financial angle but should be viewed as a permanent know-how of an expertise in the sphere of steel technology having a long term bearing.

The Ministry's reply as regards transfer of technology having long term bearing is not tenable since the agreement was made for the re-construction and modernisation of BF 6 for which the drawings could not be utilised mainly due to delay in establishing the Letter of Authority.

17.13 Airlifting of imported Steel Rolls.

According to the contracts entered into in October, 1989 and November, 1989, the Russian supplier was to commence the supply of 204 rolls (including 200 Tandem/Skin Pass Mill rolls) in the first quarter of 1990 and complete it by the end of 1990 at a price of Rs.321.30 lakhs C.I.F. Calcutta. But in January 1991 the Company was informed that only 14 rolls were ready for despatch. In the meanwhile the Operations Department of Bokaro Steel Plant had indicated the extremely urgent requirement for the 10 Tandem/Skin Pass Mill rolls which were ready. A proposal for airlifting of the 10 rolls was approved by the Managing

Director, Bokaro Steel Plant in January, 1991 and the rolls were airlifted on 10th and 17th April, 1991.

Thus importing the materials by airlifting instead of transport by sea resulted in an extra expenditure of Rs.120.49 lakhs as detailed below:

	(In Rupees)
Cost of 10 rolls FOB Airport.	12,73,380
Air freight paid	1,21,83,778
TOTAL	1,34,57,158
Less cost of 10 rolls shipped CIF Calcutta	14,08,000
Extra expenditure	1,20,49,158

The Management stated in September, 1992 that the decision to airlift the rolls was taken in view of the critical stock position. It was also stated (September, 1994) that no action could be initiated against the Russian supplier as there was no clause in the purchase order to cover such a contingency.

Out of 204 rolls contracted for only 24 have been supplied under the contract (January 1994).

Had the Company monitored the stock position well in time it could have saved the extra expenditure of Rs.120.49 lakhs.

The matter was referred to Ministry in December 1992; who, while, accepting the facts (February 1994) did not offer any comments regarding the extra expenditure.

17.14 Loss on export of plates

The Company entered into a contract on 16th November, 1989 with a purchaser of Switzerland and two contracts on 14th May, 1991 and 5th June, 1991 with a purchaser of Japan for export of 20,000 tonnes, 17150 tonnes and 16000 tonnes respectively of Prime Mild Hot Rolled Steel Plates. The quantity in the contract with the Swiss firm was further raised to 40,000 tonnes in April, 1990. The price FOB Vishakhapatnam was fixed at US $ 325 per tonne under both

contracts with the Japanese firm and at US $ 366.50 per tonne for the Swiss firm. The terms and conditions of the contract laid down that payment for supply of material would be released through letter of credit on furnishing (i) work test certificate issued by BSP, (ii) conformity certificate issued by Bureau of Indian Standards; and (iii) pre-shipment inspection certificate issued by Authorised Surveyor in India as agreed to by both the purchasers.

During the period from March 1990 to August 1991 Bhilai Steel Plant supplied 15165.601 tonnes and 15126.166 tonnes of plates against the contracts with the Japanese firm and 40793 tonnes of plates against the contract with the Swiss firm as per terms and conditions of the contract and drew funds from letters of credit after furnishing the required certificates. However, SAIL at a subsequent stage (December 1990 and May 1992) agreed to pay Rs.137.62 lakhs (Rs 84.09 lakhs to the Japanese purchaser and Rs 53.53 lakhs to the Swiss purchaser) as compensation against the claims received in June 1990 and August 1991 from the purchasers on account of thickness, rusting, pitting and waviness in the steel plates supplied.

A Committee constituted by the Company stated in its report of March, 1992 that contractually SAIL was not liable to pay compensation as the contracts were on FOB terms. The plates were properly inspected/certified in accordance with the terms and conditions of the contracts and clean reports were issued by Authorised Surveyor in India and also by the Master of the ship. However, to maintain good business relations with the purchasers and for the sake of obtaining orders in future, the commercial settlement was made.

The argument for payment of the claims is not tenable since there was no fault on the part of SAIL in the supply of plates and the claims were not legally sustainable. Compensating the purchasers for degradation of materials after shipment was beyond the terms of the sale contracts and resulted in a loss of Rs.137.62 lakhs to SAIL.

The matter was referred to the Management and the Ministry in June, 1994; their replies have not been received (December,1994).

17.15 Clearance of imported spares without survey

Rourkela Steel Plant imported spare parts for rehabilitation of Turbo Blowers from a company in West Germany. Out of 35 packages received at Calcutta Port in August,1991, one package was found during spot survey to be in a partially broken condition. Initial survey conducted at the port did not determine the shortage/damage. Without having the final survey done at the port the material was transported to the Plant site where the final survey revealed a shortage of 227 Kgs.of material valuing Rs.265.83 lakhs (including customs duty of Rs.120.83 lakhs). A claim for refund of customs duty paid for the spares found short has been lodged with the Customs Authorities but the duty is not refundable since the shortage was not established at dock point and before the "Pass out of customs control" order was obtained and delivery taken. Further, a claim amounting for Rs 265.83 lakhs was lodged with the insurance company which admitted a sum of Rs.66.46 lakhs only towards cost of material. Thus Rourkela Steel Plant suffered a loss of Rs. 199.37 lakhs (customs duty Rs. 120.83 lakhs and cost of material Rs 78.54 lakhs)

The Ministry stated in March 1994 that the partially broken package had to be accepted without having the final survey at the port premises because it was not feasible to open and weigh the package before clearance from the docks due to practical difficulties such as lack of detailed catalogues, technical brochures, drawings etc.

The Ministry's contention is not tenable since the shortages could have been established at the port itself after obtaining the required details either from the foreign supplier or his local agent.

Thus, failure to conduct the final survey at the port premises has resulted in a loss of Rs.120.83 lakhs towards customs duty and Rs 78.54 lakhs towards cost of material to the Plant.

17.16 Loss due to delay in revision of power rates

Rourkela Steel Plant (RSP) meets its requirement of electricity from its own two captive power plants-I and II having capacities of 125 MW and 120 MW respectively and also from the Orissa State Electricity Board (OSEB) in terms of a contract entered into in 1960 and revised from time to time with the latest revision being in 1990. Since RSP's captive power plants are synchronised with OSEB grid, when power requirement of RSP falls (during non- peak hours, on weekly off days and also during breakdowns in mills) and when the generation of its captive power plant is more than its requirement, the excess power automatically gets exported to OSEB grid.

As agreed between OSEB and RSP in February, 1990 the bill for import of power by OSEB from RSP was to be paid separately without adjustment of power exported to RSP and the rate would be as agreed upon by the Government of Orissa for import of power from National Aluminium Company(NALCO). This arrangement was to be effective from April 1990. However, while the rate of power supplied by NALCO to OSEB had undergone revisions from time to time, the rate of power supplied by RSP to OSEB was not revised in terms of the agreement upto July, 1993. From Ist August,1993, the rate for supply of power by RSP to OSEB was revised to be at par with the rates of NALCO. During the period from April, 1990 to July 1993, 116.23 million units of power were supplied by RSP to OSEB for which RSP was paid Rs.581.15 lakhs as against Rs.735.57 lakhs payable by OSEB (at the rate payable to NALCO) in terms of the agreement resulting in a loss of Rs.154.42 lakhs to RSP. The difference of Rs.154.42 lakhs was not paid by OSEB due to non-revision of rates from time to time.

The Ministry stated in July 1994, that the revision in NALCO power rates came to RSP's notice only in November, 1992 but OSEB did not agree to give retrospective effect to such revision of rates inspite of various efforts made by RSP. A writ petition was filed by RSP in Orissa High Court in March 1994.

The Ministry's contention is not tenable as RSP Management was well aware that import of power by OSEB was to be paid for at the rate agreed upon by

the Government of Orissa for import of power from NALCO and should have been in touch with NALCO for ascertaining prevailing rates and should have initiated the revision of rates payable by OSEB from time to time.

17.17 Expenditure on transporting imported coal

Imported coking coal required for Bhilai Steel Plant(BSP), Rourkela Steel Plant (RSP), Durgapur Steel Plant (DSP), Bokaro Steel Plant (BSL) is generally discharged at Vizag, Paradip and Haldia Ports for further despatch to different Plants by rail.

The distance as well as the railway freight from Vizag to BSL is more than the distance and freight from Haldia to BSL. A test-check revealed that during the period from October 1992 to March 1993, 121068 metric tonnes of coking coal were despatched from Vizag to BSL and 6498 metric tonnes from Vizag to RSP while during the same period 231851 metric tonnes and 334032 metric tonnes of coking coal were despatched to RSP and BSL from Haldia. This resulted in an extra expenditure on freight of Rs.235.23 lakhs which could have been avoided had at least 121068 metric tonnes of coking coal been despatched from Vizag to RSP instead of BSL and had the same quantity of coking coal been despatched from Haldia to BSL instead.

The Ministry while admitting the facts and figures and explaining the system followed by SAIL stated (September, 1994) that the stock position at Bokaro Steel Plant during October, 1992 to March, 1993 was very low and on the other hand the stock of coal at Vizag was high as compared to low level at Haldia. The contention of the Ministry is not tenable as 121068 tonnes of coal could have been moved to Bokaro Steel Plant from Haldia Port instead of Vizag Port without affecting the urgent operational requirements of any of the steel plants. Thus, the expenditure of Rs 235.23 lakhs was actually avoidable.

VISVESVARAYA IRON AND STEEL LIMITED

17.18 Extra expenditure on purchase of alloys

The Company's requirement of Silico Manganese (SM) and Ferro Manganese (FM) for use in its manufacturing process was being met partly by production in its own plants and partly by purchase from outside parties. The requirements for the years 1990-91, 1991-92 and 1992-93 were estimated at 440, 480 and 430 tonnes of SM and 1620, 1340 and 1140 tonnes of FM. Against the estimated requirement the Company planned own production of 420 tonnes of SM and 770 tonnes of FM during 1990-91 but did not plan any quantity for the years 1991-92 and 1992-93, despite possessing captive facilities. The planned production of SM and FM during 1990-91 was also not taken up.

Due to a recession in the market, the production of alloy bearing steel for which SM and FM were required fell short of planned production during the years 1990-91 to 1992-93. The Company chose to buy the reduced requirements of these alloys but the reasons for taking the decision to buy the alloys in preference to producing them were not recorded. It procured 347, 387 and 122 tonnes of SM and 791, 783 and 467 tonnes of FM during 1990-91 to 1992-93 at an extra avoidable expenditure of Rs.156.99 lakhs, since the landed cost of procurement was more than the estimated variable cost during the three years.

The Management stated (February 1993) that there was no idle man power for deployment in production of SM/FM during the period and more emphasis was given to the production of ferro silicon which was more profitable. These reasons were not acceptable as the Company was having overall surplus man power during the period. In fact, a voluntary retirement scheme for the reduction of such surplus labour was in vogue in which 683, 334 and 494 men had voluntarily retired during 1990-91,1991-92 and 1992-93 respectively.

The Ministry stated (November 1993) that the production of ferro-silicon was more profitable as the contribution per hour was quite high compared to that of SM/FM. The Ministry's reply is not tenable as the alloys also could have been

produced as the 1500 KVA furnaces despite being operation worthy had remained idle for a considerable period though plant capacity, man power and electrical energy were available.

As production of alloys inhouse was less expensive, procurement of these alloys from outside during the years 1990-91 to 1992-93 resulted in an avoidable expenditure of Rs.156.99 lakhs.

CHAPTER 18

MINISTRY OF SURFACE TRANSPORT

DREDGING CORPORATION OF INDIA LIMITED

18.1 Delay in returning a hired dredger

The Company decided to return the hired dredger "JAGAI" to Calcutta Port Trust by March 1992 after completion of maintenance dredging for Indian Navy at Cochin. Though the Company invited tenders for towage of the dredger from Cochin to Calcutta in January 1992, the contract was finalised only in April 1992 in favour of the lowest tenderer for Rs.12.73 lakhs with the stipulation that the work of towage was to be completed by the end of April 1992.

The Project Manager of the Company without obtaining prior permission for towage from the Mercantile Marine Department handed over the dredger to the contractor on 23rd April 1992 for towage after obtaining only a survey report from a private firm of marine surveyors. The tug sailed with the dredger "JAGAI" on 24th April 1992.

Mercantile Marine Department's approval was essential for arranging towage insurance. As towage of dredger "JAGAI" was not covered under valid voyage insurance, the Company despatched its own tug in pursuit of the tow with instructions to recall the tow to Cochin, and when the request was not heeded by the towing contractor the Company requisitioned the intervention of the Coast Guard at Madras and ultimately the dredger was brought under tow to Madras where it was taken over by the Company on 5th May 1992. Thereafter with the help of its own tug the Company had the hired dredger "JAGAI" towed to Haldia (30th May 1992) and handed over to Calcutta Port Trust.

Thus, for demobilisation of the hired dredger the Company incurred an avoidable expenditure of Rs.15.62 lakhs on deploying its own tug (Rs.28.35 lakhs Tug expenses less Rs.12.73 lakhs, the agreed towage charges) and Rs.4.24 lakhs on

Coast Guard Services as a result of non-adherence to laid down marine practices and Rs.1.20 lakhs towards cost of 20 KL of Diesel oil supplied to the contractor. Due to the delay in handing over of the dredger by 2 months, the Company also incurred an additional expenditure of Rs.10.17 lakhs on hire charges.

The Ministry agreed in March 1994 that there were mistakes of omission and commission on the part of the Company which led to the towage without Mercantile Marine Department's permission. The Ministry also stated that the Vigilance Officer of the Company had calculated the avoidable expenditure to be Rs.31.23 lakhs and had fixed responsibility on four officials, whose explanations were being called for.

18.2 Incorrect assessment of dredging work

The Company was awarded in July 1989 "Reclamation Works of Link Road 47A" by the Cochin Port Trust (CPT). The work involved construction of a reclamation wall and reclaiming an area with dredged material. The Company estimated that the work would be completed in 11 months, by engaging a hired dredger and would also earn a profit of Rs.36.85 lakhs. The Company entrusted the construction of the reclamation wall to a civil contractor. The work which was to be completed by November, 1990 was completed only in December 1992, and resulted in a loss of Rs.441.94 lakhs.

Under the agreement the filling was to be carried out by dredging and pumping, deploying a cutter suction dredger with pipelines from the back waters with materials predominantly sand and shell. It was the responsibility of the Company to ensure that the pumped material would be predominantly sand and shell.

The Company did not conduct bore hole investigations in the dredging area to ascertain the availability of suitable material, prior to undertaking the work, taking the bore hole investigation report of the CPT to be reliable. The material, on dredging, was found to be only silt and the poor quality of material resulted in frequent subsidence of the reclamation wall.

Without ascertaining the suitability of the dredger for the type of work, the Company went on experimenting with one dredger after another, with the result that in the course of reclamation, it had engaged four dredgers (three dredgers simultaneously during two years 1990-91 and 1991-92, and two dredgers during 1989-90), including a sea going dredger. As the Company could not complete the work, even with four dredgers, a private contractor was engaged for supply of sand and filling the left over area to complete the work.

Due to delays in dredging, the civil contractor of the Company claimed escalation which was settled at Rs.5.51 lakhs. As the Company could not make available in time the fronts to a contractor engaged by CPT for road formation, the Company was asked by the CPT, to compensate an extra expenditure of Rs.42 lakhs claimed by their road contractor. Against this claim, the Company has made a provision for Rs.35 lakhs being the liability towards liquidated damages.

The Ministry stated in February 1994 that pre-project surveys were not conducted because the bore hole data furnished by Cochin Port Trust was considered to be reliable and the time available before submitting the tender was not sufficient for fixing up an agency and carrying out separate bore-hole investigation . Due to change in soil conditions and stoppage of work by contractor for construction of reclamation wall and non-release of a dredger by Hyderabad Urban Development Authority from its previous assignment, DCI could not complete the work in time and hence the delay.

The reply of the Ministry is not tenable. Though the CPT furnished the bore hole data, it was the responsibility of the contractor, as per tender specifications to ensure that the pumped material is predominantly sand and shell. As the type of soil to be encountered is the key to estimating the cost, as well as to the selection of the dredger to be deployed, the Company ought to have conducted a pre-dredging survey to satisfy itself that the bore-hole data furnished conformed to the ground realities. The Board of Directors observed (August 1993) that the Company sustained heavy losses by not conducting pre-dredging surveys and by relying on the information given in the tender documents.

Thus, undertaking of work without proper pre-dredging surveys and planning resulted in a loss of Rs.441.94 lakhs to the Company.

18.3 Failure to conduct pre-dredging surveys

The Company undertook, for the Government of Goa, dredging of soft patches in rivers Mandovi and Zuari and hard patches at Sonarbagh in Mandovi River by hiring a `Grab' dredger. An estimated quantity of 2.5 lakh M^3 was to be dredged by March 1990, within 5 months from the date of commencement of work. The Company dredged only 1.22 lakh M^3 in 19 months and as against the anticipated profit of Rs.15 lakhs, the Company incurred a loss of Rs.175.79 lakhs.

The Company did not conduct any pre-dredging surveys to determine the type of strata existing. The bed material was found to be different from what was seen from the bank and consisted of gravel and pebbles not suitable for Cutter Suction Dredgers. Dredge cut was also found to be insufficient. The Company did not take up the balance work in River Zuari as the bed material was found to be hard strata. The Company contended that as the contract contemplated dredging of hard patches in Sonarbagh only, dredging of hard patches in Zuari did not fall within the scope of their work. It, therefore, requested the Government of Goa to preclose the contract. The Government of Goa, on the other hand, intimated that they were taking up the balance work at the risk and cost of the Company. The liability for the balance work estimated at Rs.41.51 lakhs was provided for in the accounts of the Company for the year 1993-94.

Without ascertaining the suitability of the dredger for the work, the Company deployed a hired Cutter Suction Dredger `Jagai'. The performance of the dredger was found to be unsatisfactory as the depth of dredging at site varied from 10 cms to 60 cms, against 2 metres cut required for the dredger to achieve effective output. Due to its large size, it caused hindrance to navigation and it had to be shifted for a few hours daily for allowing movement of traffic in the river. As the dredger `Jagai' was found to be unsuitable, the Company, apart from deploying its own inland dredger offloaded a portion of the dredging work of soft patches to a private company.

Though it was envisaged that by employing two hired dredgers the work could be completed, the Company in fact deployed 3 dredgers for soft patches and one grab dredger for hard patches. The Company did not withdraw its dredger and one hired dredger till the end of November 1991, though the work was completed in April 1991. The owner of the hired dredger claimed idle time charges of Rs.74.74 lakhs from the Company and the claim was referred to arbitration. The Company's claim of Rs.43.88 lakhs towards idle time and demobilization charges of the dredgers was pending with the Government of Goa.

The Ministry stated in April 1994 that the site investigations of bed material were not carried out as the Company did not doubt the information given by the employer i.e. Government of Goa that all the patches in rivers Mandovi and Zuari consisted of soft soil like sand, silt and clay except at Sonarbagh.

The contention of the Ministry is not tenable, as the ascertainment of the nature of the bed material is a pre-requisite for taking up the work. The economics of the work as well as the type of the dredger to be deployed were dependent on the nature of the material to be dredged. Instead, the Company was satisfied with the physical examination of the surface material. In case the Company intended to rely entirely on the information furnished by the employer, the Company should have insisted on the inclusion of a suitable clause in the agreement, to enable it to negotiate fresh terms, in case the bed material was found to be different from that indicated by the employer. It was also observed by the Board of Directors of the Company (August 1993) that the dredging work undertaken at the Mandovi and the Zuari rivers justified independent soil tests; it was evident that due to lack of authentic data of the soil in the river bed, the Company, relying on the information given in the tender documents, had to incur losses.

Thus, failure to conduct pre-dredging surveys of the bed material and engagement of unsuitable dredgers resulted in the Company incurring a loss of Rs.175.79 lakhs on the execution of the work. (With a liability to pay Rs.41.51 lakhs towards risk and cost charges and Rs.74.74 lakhs towards idle charges claimed by the owner of the private dredger).

18.4 Delay in demobilisation of a dredger

The Company completed the dredging at Hussain Sagar Lake, Hyderabad for Hyderabad Urban Development Authority (HUDA) by May 1989. However, the dredger was kept idle at Hussain Sagar Lake till the middle of December 1989, on the plea that prior permission of HUDA was necessary for its demobilisation. It was finally demobilised in December 1989 without obtaining prior permission of HUDA as the terms and conditions of the contract, infact, did not require any such permission. For the idle period, the Company claimed an amount of Rs.76.75 lakhs towards idle charges. HUDA rejected the claim on the ground that the Company had retained the dredger for its own convenience. The Company incurred, during the idle period, an expenditure of Rs.13.35 lakhs (pro rata) on the maintenance of the dredger and an additional amount of Rs.6.37 lakhs on the maintenance of its project office at Hyderabad.

The dredger was to be mobilised on Link Road Project, Cochin after the work at Hussain Sagar Lake was completed. Since this was not done, the Company had to hire a dredger from a private party for the Link Road Project.

The Ministry replied in March 1994 that the Government of Andhra Pradesh did not agree to demobilisation of the dredger on the ground that some more dredging work would be entrusted to the Company which did not materialise; finally, the dredger was demobilised in December 1989. The Company preferred the claim on HUDA for idle time charges, which was rejected. The matter was referred for arbitration. No arbitrator had, however, been appointed and the Company filed a suit in Andhra Pradesh High Court in January, 1994.

The contention of the Company that HUDA did not agree to demobilisation is not tenable as the dredger was finally demobilised in December, 1989 without obtaining prior permission of HUDA. The Company was also aware that before it could take up further dredging work in Hussain Sagar Lake and Nacharam tank, certain preparatory works like hydrographic survey, soil investigation, construction of retaining bunds would have to be completed and that would take 5 to 6 months. In such a situation and also as further works had not been firmed up, the Company

could have demobilised the dredger to take up committed dredging works in hand, i.e. Link Road Project, Cochin.

Thus, as a result of delayed demobilisation of the dredger, the Company incurred an avoidable expenditure of Rs.19.72 lakhs.

HINDUSTAN SHIPYARD LIMITED

18.5 Overpayment under Voluntary Retirement Scheme

Under BPE's O.M. dated 5th October 1988 and subsequent clarification dated 29th May 1992, Government of India set out a model Voluntary Retirement Scheme. Public Sector Undertakings could introduce the scheme with the approval of their Administrative Ministry. Under the scheme, notice period (3 months or 1 month as per applicable conditions of service) pay is admissible as a terminal payment, if the voluntarily retiring employee is relieved on the date of his application. Where the Management takes time to accept the application and allows the notice period to elapse or the employee has drawn full salary while continuing to serve during the notice period, the notice period pay would not be admissible.

Hindustan Shipyard Limited introduced the Voluntary Retirement Scheme in June 1989, after obtaining approval from the Administrative Ministry. Under the Scheme 199 employees of the Company had opted for voluntary retirement between July 1992 and September 1993. The Company, in all the cases, took time to decide about the acceptance of the applications and allowed the notice period to elapse. However, the Company paid full notice period pay in addition to full salary to the employees in contravention of BPE's guidelines.

The Company stated in January 1994 that the model scheme formulated by BPE in its OM dated 5th October 1988 did not envisage issue of notice but contemplated the payment of notice pay only. The contention of the Company is not tenable, since BPE had clarified the position in May 1992 itself, well before the said employees had opted for voluntary retirement.

The Company had thus allowed full notice period pay in contravention of the BPE's further clarification dated 29th May 1992 on the Scheme thereby resulting overpayment to the extent of Rs.9.19 lakhs.

The Ministry in their reply (June 1994) stated that they agreed with the observations of Audit.

CHAPTER 19

MINISTRY OF TEXTILES

NATIONAL TEXTILES CORPORATION (APKK&M) LIMITED

19.1 Avoidable payment of customs duty

Under Customs Notification of 3rd May 1990, Capital Goods imported for export production in accordance with the provisions of paragraph 197 of the Import and Export Policy (1990-93) could be exempted from basic customs duty in excess of 25 per cent ad valorem and the additional duty on capital goods leviable under the Customs Tariff Act if a licence from the Chief Controller of Imports and Exports(CCIE) is obtained before the clearance of the goods. The Company incurred an avoidable expenditure of Rs.16.35 lakhs on Customs Duty by not complying with this requirement in the two cases described below :-

(a) In August 1990 the Company placed a purchase order on a foreign firm, for one autoconer, valuing Rs.51.75 lakhs, CIF (Cochin), stipulating delivery in December 1990. The Company opened a Letter of Credit on 14th September 1990 and the goods shipped by the firm on 16th December 1990 arrived at Cochin Port on 24th January 1991. The Company applied to CCIE for the licence required for availing of the duty concession only on 25th January 1991. Pending production of the licence before the Customs authorities, the Company in order to avoid port demurrage, cleared the goods provisionally on 29th April 1991 at the concessional rate of duty of 25 per cent after furnishing a bank guarantee for Rs.7.84 lakhs to the Customs authorities towards the difference in duty. The Company obtained the import licence on 3rd May 1991. The Customs authorities declined to allow the duty concession as the licence contained a clause, that the benefits of para 197 would not be available if the goods had already been cleared by the Customs. The Customs authorities invoked the bank guarantee for Rs.7.84 lakhs on 16th September 1992.

(b) The Company placed a purchase order (August 1990) on the foreign firm, for one more autoconer valuing Rs.56.71 lakhs CIF (Bombay), stipulating delivery in January 1991. The Company opened a Letter of credit on 14th September 1990 and the goods arrived at Bombay Port on 4th March 1991. In this case also the Company had applied for the import licence required for availing the duty concession on 25th January 1991. Pending issue of the licence the Company in order to avoid demurrage, cleared the goods on 28th March 1991 at normal rates of duty of 40 per cent ad valorem, as demanded by the Customs. The import licence obtained on 3rd May 1991, stipulated that the benefits of para 197 would not be available if the goods had already been cleared by the Customs. The Company was unable to claim the benefit of duty concession as the goods were got cleared from the Customs before the receipt of the licence from CCIE. The concession foregone on this consignment amounted to Rs.8.51 lakhs.

The matter was referred to the Company and Ministry in January 1994. Their replies have not been received (December 1994).

NATIONAL TEXTILE CORPORATION (WBABO) LTD

19.2 Wrong fixation of pay

While fixing, in June 1990, the pay of its employees in revised scales recommended by a High Power Pay Committee with effect from Ist January 1986, undue benefit of stepping up of pay was granted to 107 employees due to printing of pay stages, in bunching cases, wrongly in a ready reckoner. This resulted in overpayment of Rs.6.20 lakhs as pay and allowances for the period from January 1986 to December 1993.

Admitting the wrong application of rules, the Ministry stated in December 1993 that when the matter was raised by Audit the Management held discussions to persuade the employees/union to return the amount overpaid but the union and employees strongly opposed the move and the issue still remained unresolved.

CHAPTER 20

MINISTRY OF URBAN DEVELOPMENT

HOUSING AND URBAN DEVELOPMENT CORPORATION LIMITED

20.1 Investment of funds

On the basis of offers received from five Banks/Financial Institutions Housing and Urban Development Corporation Limited (HUDCO) allotted Rs.300 crores of 9 per cent tax free bonds Series-II on 19th February 1992 to the following institutions:-

(i)	Canbank Financial Services Limited(CANFINA)	Rs.200 crores
(ii)	Indian Bank	Rs.70 crores
(iii)	Andhra Bank Financial Services Limited(ABFSL)	Rs.30 crores

In their offer the allottees had indicated that HUDCO should deposit the entire subscription of bonds (after adjusting 15 per cent front end fee and discount) with them on an indicative yield of 12 per cent for a period of one year under the Portfolio Management Scheme.

While allotting the bonds, HUDCO referred to the conditions of deposit viz. a period of one year and an interest rate of 12 per cent per annum but did not mention either that the deposits were under Portfolio Management Scheme or the understanding that the rates were only indicative. In this manner HUDCO placed Rs.170 crores with CANFINA, Rs.59.50 crores with Indian Bank and Rs.25.50 crores with ABFSL.

CANFINA and ABFSL defaulted in the repayment of moneys deposited with them. Repayment of deposits was overdue from 19th February 1993 as indicated below

(Rs. in crores)

Sl. No.	Name of Institution	Amount	Rate of Return	Due Date	Repayment Received
1.	CANFINA	170.00	12%	19.2.93	10.00
2.	ABFSL	25.50	12%	19.2.93	01.00

The Management stated (December 1993) that the following steps had been taken to recover the overdue amounts :

i) Constant pursuance with the financial subsidiaries/parent banks for early payment of overdue amounts.

ii) Ministry of Urban Development and Ministry of Finance have been requested to issue suitable directions to the concerned banks/institutions to arrange payment of overdue amount alongwith interest.

iii) At the instance of HUDCO, Chairman, SCOPE has also taken up the matter with concerned parent banks, Ministry of Finance and RBI for resolving the issue.

The Ministry endorsed (May 1994) the reply of the Management and added (January 1995) that the transfer of bonds for Rs.100.99 crores and Rs.36 crores to CANFINA and ABFSL along with the interest warrants for Rs.22.72 crores and Rs.4.50 crores respectively have been withheld by HUDCO.

However, the fact remains that HUDCO has neither received full repayment of the principal amount nor the interest thereon (December 1994).

CHAPTER 21

MINISTRY OF WATER RESOURCES

RASHTRIYA PARIYOJNA NIRMAN NIGAM LIMITED

21.1 Infructuous import of machinery

The Company purchased 140 items of machinery and equipment against temporary import licences in 1980-81 and 1982-83 for the execution of civil works at 2 locations in Iraq. On completion of works, the equipments were required to be removed out of Iraq as per contractual agreement failing which heavy penalties could be imposed by the Government of Iraq. Instead of initiating timely action for the disposal/removal of the equipments, the Company appointed a committee which visited Iraq in March 1987 i.e. after completion of works at the 2 locations in June 1985 and August 1986. The Company was left with three options viz. (i) to sell the equipment abroad at throw-away prices; (ii) to dump them outside the territory of Iraq (iii) or to identify and select useful equipments and import them for use on various projects in India. Based on the recommendations of the committee the Company disposed of 50 machines at throw away prices sustaining a loss of Rs.23.91 lakhs. Ninety other machines were selected in June 1987 for import into India.

The Company imported the first lot of 27 machines (book value Rs.52.29 lakhs) in December 1987 by paying Rs.284.26 lakhs for customs duty, warehousing and transportation, and surrendered 3 Toyota cars (book value Rs.1.32 lakhs) on account of heavy customs duty. In view of this, the proposal to import into India the remaining 63 machines/equipments was reviewed by another Committee constituted in July 1988. Based on this committee's recommendations, another 31 machines (book value Rs. 23.12 lakhs) were disposed of in Iraq and Mersin Port (Turkey) in December 1988 at a loss of Rs.19.36 lakhs.

The remaining 32 machines (book value Rs.61.64 lakhs) were imported into India in January 1989 incurring an expenditure of Rs.187.18 lakhs towards customs duty, warehousing, transportation and other charges.

After import of 56 machines into India, an expenditure of Rs.27.06 lakhs was incurred on transporting them to various units of the Company in India (26 machines) and Nepal (30 machines) apart from expenditure on repairs for bringing them into running condition, which was yet to be quantified.

Thus, the Company sustained a loss of Rs.44.59 lakhs in the disposal of 84 machines/equipments. The heavy investment/expenditure of Rs.498.50 lakhs plus cost of repairs on import of 56 equipments proved ultimately infructuous since the Company could not put these equipments into gainful use as their repair in India was proving difficult and costly and the Company had to seek the approval of its Board of Directors for progressive disposal of these machines/equipments.

The Company stated (April 1994) that :

(i) they would be entitled to duty draw back as 30 machines were re-exported to Nepal and

(ii) The imported assets if sold abroad would have fetched not more than Rs.30 lakhs assuming the rate of realisation attained in the disposal of the first lot of 50 machines.

The Ministry endorsed (May 1994) the reply of the Management.

The contention of the Management is not tenable in view of the following :

a) no ultimate benefit will accrue to the Company on duty draw back as the machines permitted for export to Nepal were subject to re-import into India after use; and

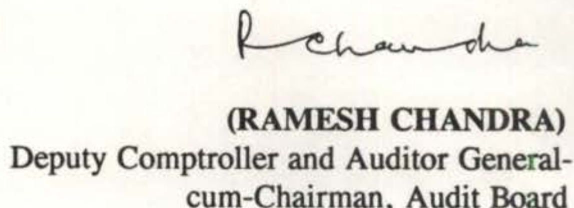
b) the Company could not gainfully use the imported equipments even after incurring more by way of expenses than the anticipated loss of Rs.87.82 lakhs on their disposal abroad.

CHAPTER 22

FOLLOW UP ON AUDIT REPORTS (COMMERCIAL)

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

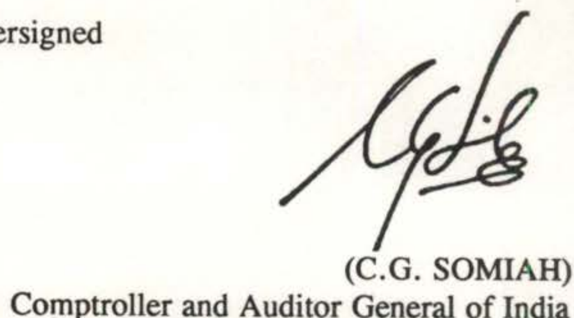
A review has revealed that inspite of repeated reminders, the remedial/ corrective action taken notes have not been submitted on the several paragraphs/appraisals contained in the last five year's Audit Reports (Commercial) relating to PSUs under the administrative control of Ministries, as detailed in Appendix (January 1995).



(RAMESH CHANDRA)
Deputy Comptroller and Auditor General-
cum-Chairman, Audit Board

New Delhi
The 10 APR 1995

Countersigned



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

New Delhi
The 13 APR 1995

APPENDIX

STATEMENT SHOWING THE DETAILS OF AUDIT REPORTS FOR WHICH ATNs ARE PENDING

No. & Year of Report.	Name of Report	Para No.,if any.
DEPARTMENT O[illegible]MIC ENERY		
1.No.2 of 1994	Comments on Accounts	1.3.1,2.1.1 and 2.7.1
DEPARTMENT OF CHEMICALS AND PETRO-CHEMICALS		
1.No.4 of 1989	Maharashtra Antibiotics & Pharmaceuticals Limited.	
2.No.8 of 1989	Resume Report	i)Section-I-5,6,48,49, 58,59, 65, 114, 119 and 142. ii)Section-II-B-12 & 16
3.No.9 of 1989	Audit Observations	Para 26
4.No.5 of 1990	Resume Report	Section-I-7,9,55,63,65, 75,134, 150,151 and 166 Section-II-B-6 Section- II-C-14 & 15
5.No. 7 of 1990	Audit Observations	Para 2.1 and 2.2
6.No.2 of 1991	Resume Report	Section-I-C- 5,16,20,25 & 46 Section-II- 5, 6, 65, 69, 70, 73, 90, 96, 108, 157, 165, 172 and 190.
7.No.3 of 1991	Audit Observations	Para 22
8.No.2 of 1993	Comments on Accounts	1.2.3, 1.3.4, 1.3.5, 1.3.6, 1.3.8, 1.4.3, 2.1.4, 2.3.1, 2.4.3, 2.5.2 and 2.5.3.
9.No3 of 1993	Audit Observations	Para 2.2
10.No.2 of 1994	Comments on Accounts	1.2.4 to 1.2.8, 1.3.7, 1.3.8, 2.1.2, 2.1.3 and 2.5.1

11.No 3 of 1994	Audit Observations	Paras 1.1 to 1.2 & 1.4 to 1.6

DEPARTMENT OF CIVIL AVIATION

1.No.9 of 1989	Audit Observations	Para 1.
2.No.10 of 1989	Schedule of Flights in Air India	
3.No.12 of 1989	Pawan Hans Limited	
4.No.5 of 1990	Resume Report	Section-I-138
5.No.7 of 1990	Audit Observations	Para 14
6.No.3 of 1991	Audit Observations	Para 4
7.No.8 of 1991	Operational performance of Vayudoot Limited	
8.No 3 of 1993	Audit Observations	Para 3.1 and 3.7 to 3.13
9.No.2 of 1994	Comments on Accounts	1.2.2, 1.2.3. & 1.3.2 to 1.3.4
10.No 3 of 1994	Audit Observations	Para 2.1, 2.2, 2.6 & 2.7

MINISTRY OF CIVIL SUPPLIES, CONSUMER AFFAIR AND PUBLIC DISTRIBUTION

1.No.8 of 1989	Resume Report	Section-I-54
2.No.5 of 1990	Resume Report	Section-I- 73
3.No.7 of 1990	Audit Observations	Para 15.1 and 15.2
4.No.2 of 1991	Resume Report	Section-II-81
5.No.3 of 1991	Audit Observations	Para 17
6.No.2 of 1993	Comments on Accounts	Para 2.5.11
7.No.3 of 1993	Audit Observation	Para 4.1
8.No.2 of 1994	Comments on Accounts	Para 2.3.5 & 2.7.4

MINISTRY OF COAL

1.No.8 of 1989	Resume Report	Section.I-106.
2.No.5 of 1990	Resume Report	Section.I-119
3.No.2 of 1991	Resume Report	Section-II-10,33,37,41, 49,150,153,176 and 195.
4.No.3 of 1991	Audit Observations	Paras 21
5.No.3 of 1993	Audit Observations	Paras 5.1 to 5.11
6.No.2 of 1994	Comments on Accounts	1.2.9,1.3.5,1.3.6,2.1.4 & 2.4.1
7.No.3 of 1994	Audit Observations	Paras 3.1 to 3.12

MINISTRY OF COMMERCE

1.No.9 of 1989	Audit Observations	Para 28
2.No.5 of 1990	Resume Report	Section-I-101 Section-II-C- 23
3.No.7 of 1990	Audit Observations	Para 23
4.No.3 of 1991	Audit Observations	Para 12
5.No.3 of 1993	Audit Observations	Para 6.1 to 6.3
6.No.3 of 1994	Audit Observations	Para 4.1 to 4.4 & 4.6 to 4.9

DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

1.No.5 of 1993	Goa Shipyard Limited	
2.No. 2 of 1993	Comments on Accounts.	Para 1.3.33
3.No.3 of 1993	Audit Observations	Para 7.3 and 7.7 to 7.8
4.No.2 of 1994	Comments on Accounts	Paras1.3.13, 2.2.5 and 2.3.6

DEPARTMENT OF ELECTRONICS

1.No.8 of 1989	Resume Report	Section-I-38 & 115
2.No.5 of 1990	Resume Report	Section-I-44 & 146
3.No.2 of 1991	Resume Report	Section-II-40,52 & 170
4.No.11 of 1991	CMC Limited	
5.No.2 of 1993	Comments on Accounts	Paras 1.3.11, 1.4.8, 1.4.9 & 2.4.12
6.No.3 of 1993	Audit Observations	Para 8.1
7.No.2 of 1994	Comments on Accounts	Paras 1.3.14 & 1.3.15
8.No.3 of 1994	Audit Observations	Para 7.1

MINISTRY OF ENVIRONMENT & FOREST

1.No.8 of 1989	Resume Report	Section-I- 1
2.No.5 of 1990	Resume Report	Section-I- 2
3.No.2 of 1991	Resume Report	Section-II- 1

DEPARTMENT OF FERTILIZERS

1.No.4 of 1989	Talchar Project of Fertilizer Corp of India Ltd.	
2.No.8 of 1989	Resume Report	Section-I-47,86,111, 113,129,130 & 137. Section -II-B-11, 22, 28, 29 & 33
3.No.9 of 1989	Audit Observations	Para 21
4.No.5 of 1990	Resume Report	Section-I- 49, 62, 111, 137, 139, 140, 143 & 159 Section-II-C-7,8 & 11
5.No.7 of 1990	Audit Observations	Para 16 & 17

6.No.2 of 1991	Resume Report	Section-I-C-13,15,43&44 Section-II-56,67,124, 159,160,162,164 & 185
7.No.3 of 1991	Audit Observations	Paras 6,13 and 27
8.No.2 of 1994	Comments on Accounts	Paras1.2.12 to 1.2.14, 1.3.16 to 1.3.19,2.1.6, 2.3.7, 2.4.3, 2.4.4, 2.6.1 & 2.7.3
9.No.3 of 1994	Audit Observations	Paras 8.1 to 8.2

MINISTRY OF FINANCE

1.No.8 of 1989	Resume Report	Section-I-90,105,110, 141 and 147
2.No.9 of 1989	Audit Observations	Para 22 and 30
3.No.5 of 1990	Resume Report	Section-I-115, 116, 135 and 173 Section-II-C-1
4.No.2 of 1991	Resume Report	Section-II-130, 149, 155, 189 and 197
5.No.3 of 1991	Audit Observations	Paras 1.1, 1.2, 1.3, 2.1, 2.2 and 2,3
6.No.2 of 1993	Comments on Accounts	2.1.13 to 2.1.16
7.No.3 of 1993	Audit Observations	Para 10.1 to 10.9
8.No.2 of 1994	Comments on Accounts	Paras 2.1.7 to 2.1.10, 2.2.1 to 2.2.4 & 2.3.1 to 2.3.4
9.No.3 of 1994	Audit Observations	Paras 9.1 to 9.5

MINISTRY OF FOOD

1.No.7 of 1990	Audit Observations	Para 1 and 10.
2.No.2 of 1994	Comments on Accounts	Paras 1.2.1 & 1.2.15
3.No.3 of 1994	Audit Observations	Paras 10.1 to 10.2

MINISTRY OF HEALTH & FAMILY WELFARE

1.No.8 of 1989	Resume Report	Section-1-62
2.No.2 of 1991	Resume Report	Section-II-88 &93

Department of Heavy Industry.

1.No.3 of 1989	National Bicycle Corpn.Ltd.	
2.No.8 of 1989	Resume Report.	i)Section-I-40, 51 & 134 ii)Section-II-B-36
3.No.5 of 1990	Resume Report	i)Section-I-13, 16, 23, 29, 30, 47, 58, 66, 87, 95, 121, 122, 125, 142 & 152. ii)Section-II-B- 5 iii)Section II-C-4.
4.No.7 of 1990	Audit Observations	Paras 3.1to 3.4
5.No.2 of 1991	Resume Report.	i) Section-I-B-1 & 2. ii)Section-I-C-6, 7, 8, 9, 18, 26, 47 & 49. iii)Section-II-3, 9, 15, 22, 27, 28, 30, 32, 45, 103, 118, 129, 136, 168, 175 & 181.
6.No.3 of 1991	Audit Observations.	Para 15 .
7.No.9 of 1991	Nagaland Pulp & Paper Co.Ltd.	
8.No.13 of 1991	Bharat Opthalmic Glass Ltd.	
9.No.9 of 1992	NEPA Ltd.	

10.No.2 of 1993	Comments on Accounts	Paras 1.2.6, 1.2.9, 1.3.20, 1.3.25 1.3.26, 1.4.16 to 1.4.17, 1.4.24 2.1.18, 2.1.20 to 2.1.21, 2.3.7 2.3.10, 2.5.17 & 2.5.23.
11.No.3 of 1993	Audit observations	Paras 12.4 to 12.8 and 12.12 to 12.14
12.No.2 of 1994	Comments on Accounts	Paras 1.2.16 to 1.2.22, 1.3.20 to 1.3.32, 2.1.11, 2.1.12, 2.3.8 to 2.3.11, 2.4.5 to 2.4.9, 2.5.3, 2.5.4, 2.6.2 to 2.6.4 & 2.7.5
13.No.3 of 1994	Audit observations	Paras 11.1 to 11.12

MINISTRY OF HOME AFFAIRS

1.No.8 of 1989	Resume Report	Section-I- 31
		Section-II- B--7
2.No.9 of 1989	Audit Observations	Para 8
3.No.5 of 1990	Resume Report	Section-I- 32 & 41
4.No.2 of 1991	Resume Report	Section-II-38,39,47& 48
5.No.2 of 1993	Comments on Accounts	1.2.7 and 1.4.14

MINISTRY OF INFORMATION AND BROAD CASTING

1.No.5 of 1990	Resume Report	Section-I-112
2.No.2 of 1991	Resume Report	Section-II-125
3.No.3 of 1993	Audit Observations	Para 13.1 and 13.2

MINISTRY OF MINES

1.No.7 of 1991	Hindustan Zinc Limited	
2.No.3 of 1993	Audit Observations	Para 14.3
3.No.2 of 1994	Comments on Accounts	1.3.33,2.4.10 & 2.6.5
4.No.3 of 1994	Audit Observations	Paras 12.1 to 12.5

DEPARTMENT OF PETROLEUM AND NATURAL GAS

1.No.7 of 1989	An analysis of Oil Pricing Arrangements	
2.No.8 of 1989	Resume Report	Section-I-4, 22, 23, 39, 63, 64, 70 & 75 Section-II-B- 2,13 & 18
3.No.9 of 1989	Audit Observations	Para 16, 24.1 and 24.2
4.No.5 of 1990	Resume Report	Section-I-4, 5, 6, 38, 46, 50, 67, 74, 79, 80 & 136 Section-II-C- 2 & 17
5.No.7 of 1990	Audit Observations	Para 4,5.1, 5.2 & 5.3,
6.No.2 of 1991	Resume Report	Section-I-C-4,17 & 27 Section-II-4, 19, 23, 25, 54, 59, 75, 94, 95, 101& 156
7.No.3 of 1991	Audit Observations	Para 8.1 & 8.3
8.No.18 of 1991	Inventory Control in ONGC.	
9.No 2 of 1993	Comments on Accounts	1.2.10, 1.2.12, 1.2.13, 1.3.29, 1.3.30, 1.4.30, 2.4.28 to 2.4.31, 2.5.26 to 2.5.28 and 2.6.3
10.No.3 of 1993	Audit Observations	Paras 16.1, 16.4, 16.5, 16.7, 16.9 to 16.11, 16.19 &16.21
11.No 2 of 1994	Comments on Accounts	Paras 1.2.23 to 1.2.26, 1.3.34 to 1.3.40, 2.1.13, 2.3.12 & 2.4.11 to 2.4.13
12.No.3 of 1994	Audit Observations	Paras 13.1 to 13.6 & 13.8 to 13.18

MINISTRY OF POWER

1.No.8 of 1989	Resume Report	Section-I-88 & 112
2.No.4 of 1990	National Thermal Power Corporation Limited	
3.No.5 of 1990	Resume Report	Section-I-114 & 126
4.No.2 of 1991	Resume Report	Section-I-C-35 Section-II-127,148 & 167.
5.No.2 of 1993	Comments on Accounts	Para 1.4.32
6.No.3 of 1993	Audit Observations	Paras 17.1 to 17.4 & 17.6
7.No.2 of 1994	Comments on Accounts	Paras 1.2.27, 1.3.41 & 1.3.42
8.No.3 of 1994	Audit Observations	Paras 14.1 to 14.7

MINISTRY OF RAILWAYS

1.No.8 of 1989	Resume Report	Section-I-67
2.No.5 of 1990	Resume Report	Section-I-81 & 144
		Section-II-C-18
3.No.2 of 1991	Resume Report	Section-II-97 & 163
4.No.2 of 1993	Comments on Accounts	1.2.16, 1.2.17, 1.4.34, 2.5.29 and 2.5.30
5.No.2 of 1994	Comments on Accounts	1.2.28 & 1.3.44
6.No.3 of 1994	Audit Observations	Para 15.1

DEPARTMENT OF SCIENTIFIC AND INDUSTRIAL RESARCH

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

MINISTRY OF STEEL

1.No.6 of 1989	Hindustan Steel works Construction Ltd.	
2.No.8 of 1989	Resume Report	Section-I-20, 42, 52, 60, 61, 76, 77, 80, 92 & 123 Section-II-B-14, 17, 24 &31
3.No.9 of 1989	Audit Observations	Para 15
4.No.5 of 1990	Resume Report	Section-I-26, 70, 76, 77, 84, 88, 94, 97, 98, 99 & 145 Section-II-B- 4 & 7 Section-II-C-13
5.No.7 of 1990	Audit Observation	Para 11 & 12
6.No.2 of 1991	Resume Report	Section-I-B-4 to 8 Section-I-C-22, 24, 29 and 31 Section-II-21, 57, 78, 89, 91, 92, 105, 109, 110, 113, 114, 173 & 193
7.No.2 of 1993	Comments on Accounts	1.3.31, 1.4.36, 2.4.32, 2.4.34 & 2.5.32
8.No.3 of 1993	Audit Observations	Paras 20.3 to 20.5
9.No.2 of 1994	Comments on Accounts	Paras 1.2.29, 1.2.30, 1.3.46 to 1.3.51, 2.1.14, 2.1.15, 2.4.14 to 2.4.16, 2.5.5, 2.5.6 & 2.7.6 to 2.7.9
10.No.3 of 1994	Audit Observations	Paras 16.1 to 16.11

MINISTRY OF SURFACE TRANSPORT

1.No.8 of 1989	Resume Report	Section-I-29
2.No.5 of 1990	Resume Report	Section-I-36
3.No.2 of 1991	Resume Report	Section-I-C-10 & 21 Section-II-36, 46, 79& 86
4.No.2 of 1993	Comment on Accounts	1.4.40
5.No.2 of 1994	Comment on Accounts	1.2.31, 1.3.52 to 1.3.54, 2.1.16 and 2.6.6
6.No.3 of 1994	Audit Observations	Para 17.2

DEPARTMENT OF TELECOMMUNICATION

1.No.8 of 1989	Resume Report	Section-I-53 & 68 Section-II-B- 23
2.No.9 of 1989	Audit Observations	Para 20.1, 20.2 & 20.3
3.No.10 of 1989	Electronic-Typewriter Project of Hindustan Telprinters Limited	
4.No.5 of 1990	Resume Report	Section-I-72, 82, 90, 156 and 169 Section-II-C-21
5.No.2 of 1991	Resume Report	Section-I-C-28 Section-II-80, 99, 107 & 182
6.No.8 of 1992	Hindustan Teleprinters Ltd.	
7.No.12 of 1992	Indian Telephone Industries Ltd.	
8.No.2 of 1993	Comments on Accounts	Paras 1.4.4, 2.5.7, 2.5.8 and 2.6.1
9.No.3 of 1993	Audit Observations	Para 22.1 to 22.2.
10.No.2 of 1994	Comments on Accounts	Paras 1.3.9 & 2.7.2
11.No.3 of 1994	Audit Observations	Paras 5.1 to 5.5

MINISTRY OF TEXTILES

1.No.8 of 1989	Resume Report	Section-I-26, 27, 73, 87, 91, 108 & 131
2.No.9 of 1989	Audit Observations	Para 6
3.No.5 of 1990	Resume Report	Section-I-8, 10, 28, 34, 54, 89, 113 & 118 Section-II-C-19
4.No.7 of 1990	Audit Observations	Para 21

5.No.2 of 1991	Resume Report	Section-II-C-37 & 42
		Section-II-29,31,34, 44,62,126,183 and 184
6.No.3 of 1991	Audit Observations	Para 28
7.No.5 of 1991	HHEC Limited	
8.No.2 of 1993	Comments on Accounts	Paras 1.4.43 to 1.4.50, 2.1.24 to 2.1.27, 2.3.15 to 2.3.16, 2.4.37, 2.5.34 to 2.5.40 and 2.6.7
9.No.3 of 1993	Audit Observations	Paras 23.1 to 23.5
10.No.2 of 1994	Comments on Accounts	Paras 1.2.32 to 1.2.34, 1.3.55 to 1.3.61, 2.1.17 to 2.1.19, 2.3.13, 2.3.14, 2.4.17, 2.4.18, 2.5.7, 2.6.7 & 2.7.10
11.No.3 of 1994	Audit Observations	Paras 18.1 to 18.2

DEPARTMENT OF TOURISM

1.No. 8 of 1989	Resume Report	Section-I- 3 and 69
2.No.5 of 1990	Resume Report	Section-I- 83
3.No.2 of 1991	Resume Report	Section-II- 100
4.No.3 of 1991	Audit Observations	Para 24
5.No.2 of 1993	Comments on Accounts	Para 1.3.2 and 2.1.5.
6.No.3 of 1994	Audit Observations	Paras 2.3 to 2.5

MINISTRY OF URBAN DEVELOPMENT

1.No.8 of 1989	Resume Report	Section-II-B- 26
2.No.5 of 1990	Resume Report	Section-I-69
		Section II-C-12 and 25
3.No.2 of 1991	Resume Report	Section-I-C-34 Section II-77 and 123

MINISTRY OF WATER RESOURCES

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

DEPARTMENT OF WELFARE

1.No.2 of 1991	Resume Report	Section-I-C- 1 Section -II- 3
2.No.2 of 1993	Comments on Accounts	Para 2.4.38