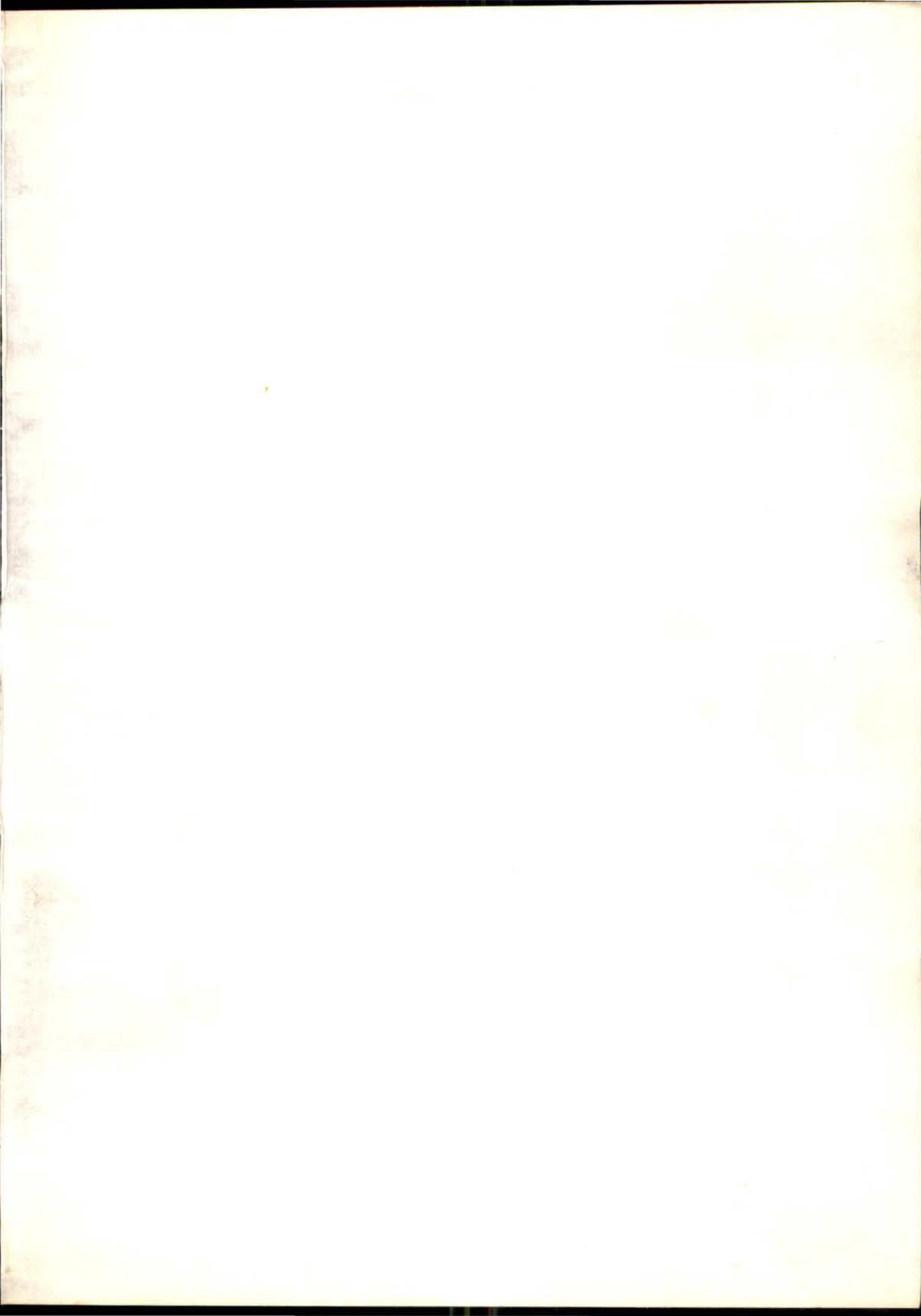

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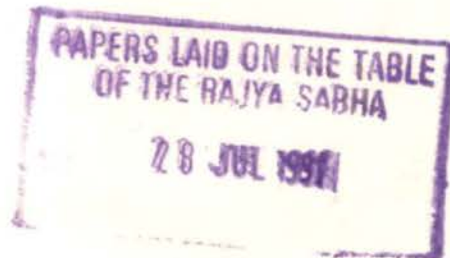
नई दिल्ली
New Delhi
दिनांक
Date 21.7.97
अधिप्रमाणित
Authenticated
उद्योग मंत्री
Industry Minister

सत्यमेव जयते

REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA

FOR THE YEAR ENDED 31 MARCH 1996
NO. 3 OF 1997



UNION GOVERNMENT - COMMERCIAL AUDIT OBSERVATIONS

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PREFACE

The accounts of Government Companies set up under the provisions of the Companies Act,1956 (including Government Insurance Companies and deemed Government Companies) 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 Airports Authority of India, National Highways Authority of India, Inland Waterways Authority of India and Damodar Valley Corporation the CAG is the sole auditor under the relevant statutes. In respect of Central Warehousing Corporation and Food Corporation of India, the CAG has the right to conduct audit independently of the audit conducted by the Chartered Accountants appointed under the statues governing the two Corporations.

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

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

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

'Report No.2 (Commercial)-Comments on Accounts' contains extracts from the important comments of the CAG on the accounts of the Companies and Corporations and a resume of the reports submitted by the Statutory Auditors (Chartered Accountants) on the audit of the Companies in pursuance of the directions issued by 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 1994-95 and 1995-96 as well as those which came to notice in earlier years but could not be covered in previous years.

OVERVIEW

Failure of Indian Airlines Ltd. to act promptly for removal of optional brake cooling fan system from A-320 fleet resulted in an extra expenditure of Rs.2.17 crores.

(Para 3.3.1)

By injudicious procurement of dumpers on lease in 1989-90 without fire protection system, Coal India Ltd. lost one dumper worth Rs.1.06 crores in a fire in September 1991. Besides, there was a payment of lease rent of Rs.1.21 crores without any use.

(Para 4.2.1)

Due to non-commissioning of a system installed at a cost of Rs.2.03 crores by Nevyeli Lignite Corpn. Ltd., the objective of curbing oil import could not be achieved. In addition, there was an avoidable expenditure of Rs.2.89 crores.

(Para 4.4.1)

ECGC Ltd. suffered a loss of Rs.40.82 lakhs due to excess settlement of claims by Banks which were otherwise inadmissible.

(Paras 5.1 to 5.2)

Purchase of components by HTL for electronic teleprinters without any firm commitment from DOT (the sole purchaser) resulted in blockage of Rs.5.33 crores for the last 4 years.

(Para 6.1)

Due to failure of ITI Ltd. to safeguard the payment terms in a contract by establishing irrevocable letter of credit, the Company would lose Rs.2.97 crores from a foreign firm.

(Para 6.2.2)

MTNL's failure to get the defects rectified in the Subscribers Loop Carrier System and to take action against the supplier for defective supply resulted in wasteful expenditure of Rs.7.08 crores on purchase of the system virtually lying idle as of January 1997.

(Para 6.3.1)

Due to late printing of Telephone Directories for 1994 and non-printing of Directories for subsequent years by a private printer, the Company could not supply the updated copies of the same to the subscribers resulting in inconvenience to them. Besides, MTNL had not recovered liquidated damages and penalty of Rs.2.23 crores and also royalty amounting to Rs.18.23 crores from the private printer. Against this, bank guarantees of Rs.7.01 crores only had been invoked by the Company, leaving an unrecovered amount of Rs.13.45 crores from the contractor.

(Para 6.3.2)

Due to purchase of defective Digital Microwave Radio System by MTNL, the system procured at a cost of Rs.4.62 crores in March/April 1993 could not be installed.

(Para 6.3.3)

Failure of the Management of MTNL in taking action against the suppliers for incomplete/defective supplies of Automatic Message Accounting system resulted in wasteful expenditure of Rs.16.89 crores.

(Para 6.3.4)

Failure of MTNL to review the cases of ISD/STD Pay Phone Holders for revising and collecting security deposits on the basis of average monthly revenue of last six months led to short recovery of the same by Rs.1.13 crores, besides accumulation of telephone revenue of Rs.53.20 lakhs against such consumers.

(Para 6.3.8)

VSNL could not collect Rs.2200 crores in foreign currency for meeting its long term plan expenditure due to deferment of Euro Issue, the reasons for which were not in conformity with the decision of the Government taken in March 1994. Apart from the set back to its development plans, the Company had to incur an expenditure of Rs.2.88 crores on legal/audit fee, consultancy charges and also had to pay Rs.3.10 crores to the Global Co-ordinators, which proved infructuous.

(Para 6.4)

By taking up mass production without proper planning and profitability analysis, BEL suffered a loss of Rs.2.36 crores.

(Para 7.1.2)

Renovation of Sulphuric Acid Plant by Hindustan Fertilizers Corp. Ltd. at Namrup in March 1992 without studying the prospect of utilization of sulphuric acid in the Ammonium Sulphate Plant, which was the main consuming plant of the sulphuric acid, resulted in unproductive investment of Rs.2.26 crores.

(Para 8.3)

The Government sought the involvement of fertilizer producing PSUs in import of urea without adequate justification and continued with the arrangement despite poor performance by those companies. National Fertilizers Limited, which had a major role in this arrangement, entered into a contract with a supplier of uncertain credentials through an Indian agent of proven incompetence for the supply of 2 LMTs of urea, in undue haste. The contract was irregular as no open tenders were called for and prescribed procedures were not followed. Various provisions of the contract relating to force majeure, liquidated damages, etc also did not protect the interest of NFL in situations like

delayed arrival of cargo or non-performance by the supplier. Advance payment to the supplier without any security was grossly irregular and unjustified. The Board had failed to exercise due control over the Management as well as in giving it emphatic direction at critical moments. The Department of Fertilizers which monitored closely the demand-supply position of urea and its import also did not question the propriety of the transaction at the earliest opportunity. This resulted in a loss of Rs.131.02 crores.

(Para 8.4.1)

Due to non-encashment of performance guarantee bond, National Fertilizers Ltd. had to forego a revenue of Rs.90.30 lakhs which could have been recovered from the defaulting suppliers.

(Para 8.4.2)

Incorrect application of tariff provisions, undercharge of premium etc. resulted in loss of Rs.1.20 crores to the four Insurance Companies.

(Paras 9.1 to 9.4)

Allbank Finance Ltd. could not recover Rs.34.66 crores from a share broker as the broker did not fulfil the contractual obligations while dealing in securities.

(Para 9.5)

Despatch of equipment worth Rs.1.74 crores by BHEL despite imposition of 'hold on' by the customers resulted in blockage of funds amounting to Rs.1.23 crores, besides loss of interest of Rs.1.06 crores.

(Para 12.1.5)

Cement Corporation of India Ltd. could not pay in time customs duty on spares valuing Rs.3.98 crores imported by it

during 1992-95 because of shortage of funds. The Company, besides blocking an amount of Rs.3.98 crores became liable to pay interest of Rs.2.37 crores on unpaid customs duty.

(Para 12.4.2)

In violation of instructions issued by Department of Public Enterprises and the Payment of Bonus Act, Engineers India Ltd. and Cycle Corporation of India Ltd. paid Rs.5.54 crores and Rs.0.51 crore respectively to their employees in the form of ex-gratia, productivity linked bonus and extra payments on voluntary retirement.

(Paras 12.5 and 14.2)

Inordinate delay of more than 5 years by HEC Ltd. in execution of an order for 3 types of Rolls resulted not only in loss (Rs.5.32 crores) but also levy of liquidated damages (Rs.50 lakhs) by the customers.

(Para 12.6)

Hindustan Cables Ltd. suffered a loss of Rs.6.39 crores in execution of an export order due to deficiency in cables inspection clause.

(Para 12.7)

Relaxation in approved marketing policy by Hindustan Zinc Ltd. for a client whose financial position was worsening resulted in avoidable blocking up of funds amounting to Rs.6 crores for over 4 years.

(Para 13.1.1)

IOCL, BPCL and HPCL suffered loss of revenue of Rs.1.70 crores due to supply of furnace oil to an ineligible private company at concessional price in contravention of the instructions of the Government.

(Para 14.1)

Negligence on the part of Hindustan Petroleum Corp. Ltd. resulted in short realisation of sale value of Naphtha of Rs.1.36 crores from a customer.

(Para 14.4.2)

Delayed/late commissioning of Diesel Pumps/VFCs by ONGC due to their late receipt rendered a large part of the expenditure of Rs.9.90 crores on their procurement unfruitful.

(Para 14.6.5)

The execution of the Dulhasti project was awarded by NHPC Ltd. to the French Consortium (FC) at the behest of the Government. This was contrary to advice given by the Steering and Negotiating Committee also appointed by Government. The MOU signed by the Company to resolve the impasse created by FC because of suspension of work midway has been one-sided affair. It allowed DSB, a member of FC, to walk out of its contractual obligations resulting in substantial concessions and benefits being bestowed upon DSB at a very high cost to the Company. The work remains at a standstill for more than four years after it was unilaterally stopped by DSB in August 1992. This has raised the estimated cost of the project from Rs. 1262.97 crores (at October 1988 prices) to Rs. 3559.77 crores (at November 1996 prices). As a result of delay and unwarranted concessions, the selling rate of power generated would increase from Re. 0.89 per unit originally envisaged to Rs.4.72 per unit at bus bar. The Company had already incurred a substantial sunken cost of Rs.1483 crores (December 1996).

(Para 15.1)

Due to defective bid formulation, NTPC Ltd. had to incur an extra expenditure of Rs.83.19 lakhs which

significantly contributed to the overall loss of Rs.2.35 crores in execution of a Turnkey contract.

(Paras 15.2.1 & 15.2.2)

Despite availability of surplus funds, the failure of Container Corp. of India Ltd. to avail the opportunity for pre-payment of loan and non-payment of loan instalment in time resulted in avoidable extra interest liability of Rs.1.44 crores.

(Para 16.1)

Due to failure in execution of lease deed even within the stipulated period, NMDC lost the Malangtoli Iron Ore Deposit, containing 340 million tonnes of mineable reserves valued at Rs.10251 crores (approximately).

(Para 17.4.1)

The transfer of mining lease of Deposit 11-B held by NMDC Ltd., to a Joint Venture Company(JVC), where NMDC's equity participation was kept at 11 per cent only, resulted in undue benefit to the JVC. Taking recourse to 'limited tender' and without fixation of reserve price was not in the best interest of the Government and the Company. Further, the consideration to be paid by the JVC to NMDC was on a grossly lower scale (Rs.16.85 crores), determined without reckoning the estimated profit of Rs.1814.85 crores to be earned from the mine over a period of 20 years as projected in the DPR.

(Para 17.4.3)

Expenditure of Rs.1.31 crores and Rs.3.13 crores towards site preparation for 3rd Captive Power Plant and compensation claims towards foreclosure of various contracts respectively by Bhilai Steel Plant, became infructuous as the project was ranked low in priority by the Government

because of withdrawal of restrictions on power by the State Govt.

(Para 17.6.2)

Due to lack of proper system of checking bank guarantee before acceptance, Visvesvarya Iron & Steel Ltd. locked up its funds amounting to Rs.42.29 lakhs in unnecessary litigation.

(Para 17.7)

Investment of Rs.2.85 crores by Dredging Corp. of India Ltd. on Shore Pumping facilities for an additional dredger became infructuous, as there was no requirement.

(Para 18.1.1)

The main objectives envisaged for acquisition of a second hand dredger remained unfulfilled, as the dredger remained idle for substantial period and idle time expenditure incurred amounted to Rs.20.57 crores. Due to high incidence of operational and maintenance cost of the dredger, Dredging Corp. of India suffered a total loss of Rs.11.79 crores on the Project where the dredger was deployed.

(Para 18.1.2)

Inland Waterways Authority of India acquired a vessel costing Rs.4.46 crores without achieving the objective for which it was procured, resulting in idle investment.

(Para 18.2)

Non-inclusion of provision for earnest money deposit in the NIT allowed the highest bidders to back out, thereby resulting in Shipping Corporation of India Ltd. not able to secure the highest price in sale of scrapped ship. The

Company had also to incur additional lay up cost of Rs.2.62 crores which could have been avoided.

(Para 18.3.1)

Cases of avoidable payment of Sales tax, Customs duty and Excise duty of Rs.6.16 crores by 6 PSUs were also noticed.

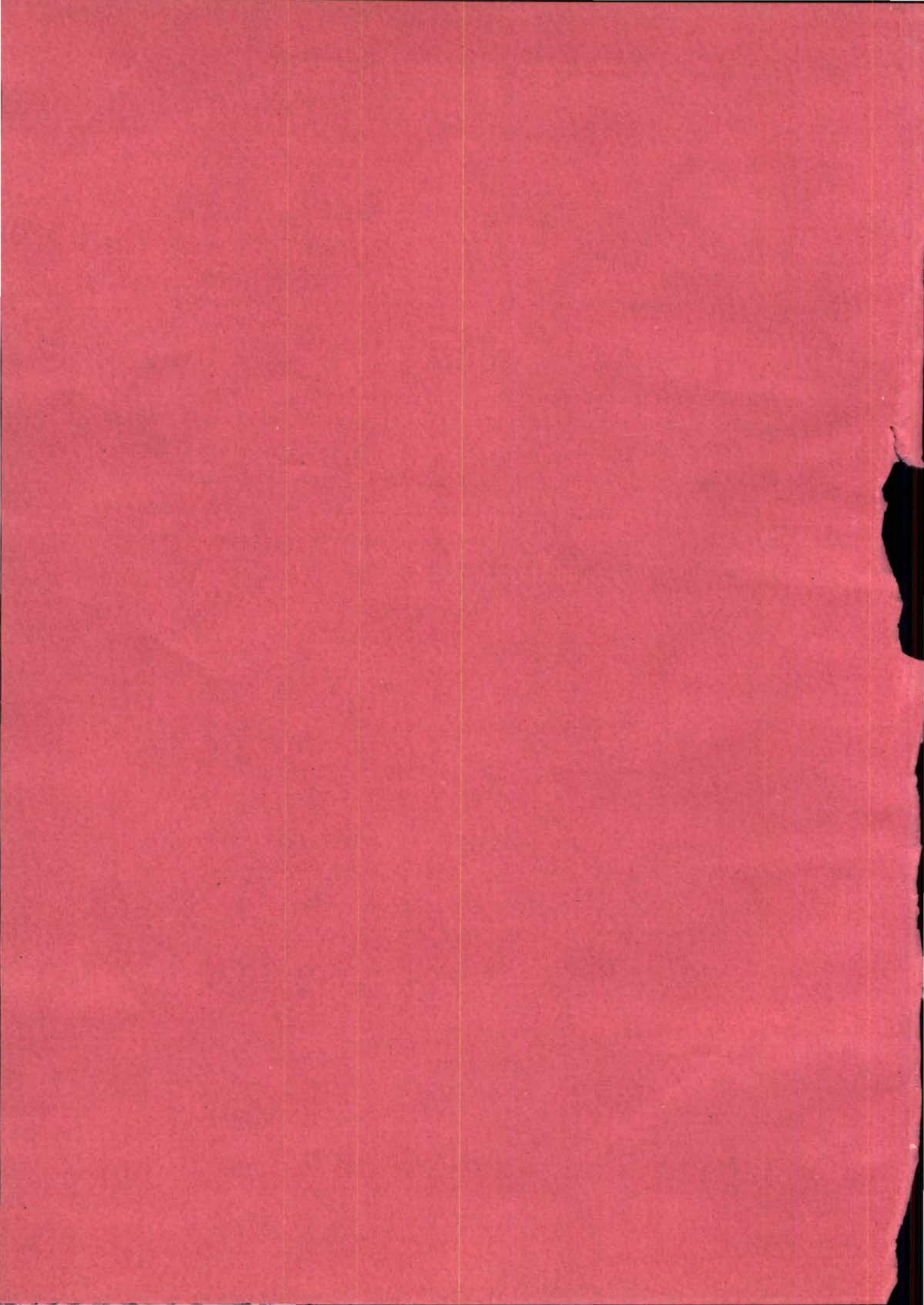
(Paras 2.2.1, 6.2.1, 8.2, 17.4.2, 17.5.2 and 17.6.7)

In addition, 35 PSUs had made purchases (including imports) of machines, equipment and spares which were not required or were not as per specifications or became redundant due to delay in ordering or delay in utilization or some of these PSUs made avoidable payment of electricity charges, demurrage etc. amounting to Rs.23.38 crores. Besides, on engagement of two lawyers for the same work, Air India incurred extra expenditure of Rs.16.25 lakhs (DM 83979).

(Paras 1.1, 2.1, 2.2.2, 3.1, 3.2.2, 3.3.2, 3.3.3, 4.1.1, 4.1.2, 4.2.2, 4.2.3, 4.4.2, 6.3.5, 8.1.1, 8.1.2, 8.1.3, 10.1, 11.1, 12.1.1, 12.1.2, 12.1.3, 12.1.7, 12.3.2, 12.8, 12.9, 12.10, 12.12, 13.2, 13.3, 14.3, 14.4.1, 14.5, 14.6.1, 14.6.2, 14.6.3, 14.7, 17.1.2, 17.1.3, 17.2, 17.3, 17.6.1, 17.6.3, 17.6.4, 17.6.6, 18.1.3, 18.3.2, 19.1.1, 19.1.2, 19.2 and 20.1)

Further, 15 PSUs suffered revenue losses amounting to Rs.181.76 crores on account of supply of defective material, failure to enforce contract clause, irregular payment to agent, undue favour to private parties, etc.

(Paras 3.2.1, 3.2.3, 4.3, 6.3.6, 6.3.7, 7.1.1, 8.4.3, 8.5, 12.1.4, 12.1.6,12.2, 12.3.1, 12.4.1, 12.11, 13.1.2, 17.1.1, 17.5.1, 17.6.5 and 17.6.8)



CHAPTER 1

DEPARTMENT OF ATOMIC ENERGY

ELECTRONICS CORPORATION OF INDIA LIMITED, HYDERABAD.

1.1 Avoidable expenditure in production of Billing System

The Company received in May 1989 a Purchase Order from Department of Telecommunications (DOT) for the supply of 4 sets of EDX Billing System, at a provisional unit price of Rs.62.57 lakhs, which was subsequently (November 1989) confirmed at Rs.55 lakhs. Against the order for supply of 4 sets of billing system, the Company took up production of 9 sets. The 4 sets ordered, were delivered by the Company between March 1990 and January 1991. However, despite the absence of any order or enquiry from DOT, the Company continued the production of the remaining 5 sets and upto March 1992, accumulated Work-in-Progress valued at Rs.70.81 lakhs. After diverting material valued at Rs.14.68 lakhs to other jobs, the Work-in-Progress valued at Rs.56.13 lakhs was finally de-rated during 1992-93, to Re.1.

The Department of Atomic Energy stated in their reply (December 1996) that:

(i) an exception was made in the above case to go ahead with the manufacture of additional System, in view of the difficulty in procurement of components and the mis-match between the lead time for the manufacture and the delivery schedule of the customer;

(ii) despite mid-course corrections initiated, the Company could not avoid the loss of Rs.38.21 lakhs mainly due to technological obsolescence;

(iii) the anticipated orders from DOT did not materialise because:-

- the price was perceived to be higher;
- demand for telex was not growing as expected;
- micro-processor based Open System with tremendous price/performance advantage over the earlier systems was emerging abroad.

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

a) The obsolescence factor was not taken into consideration at the time of procuring material in anticipation of further orders from DOT.

b) Since the order for the 4 sets of Billing System could be executed within the prescribed delivery schedule, the question regarding the mis-match between the lead time for manufacture and delivery, did not arise.

Thus, production of Billing System in excess of the orders on hand resulted in loss of Rs.56.13 lakhs including an avoidable expenditure of Rs.38.21 lakhs representing the cost of materials.

CHAPTER 2

MINISTRY OF CHEMICALS & FERTILIZERS

DEPARTMENT OF CHEMICALS & PETROCHEMICALS

INDIAN DRUGS & PHARMACEUTICALS LIMITED

2.1 Blockage of funds and payment of interest on custom duty

In order to develop substitutes for some monopoly drugs in the country and also for regular production at Rishikesh Plant of the Company, during the years 1989-92 several consignments of raw material for nine different drugs worth Rs.61.23 lakhs (CIF) were imported. The Company could not muster sufficient funds to pay customs duty aggregating Rs.69.19 lakhs to clear the consignments immediately on their arrival in India. In consequence of this delay in clearance ranging from 5 months to 3 years, the Company paid Rs.17.32 lakhs as interest on customs duty between August 1990 to June 1994.

Meanwhile, the Company could not complete pilot projects for development of alternative products. Refampicin was one of the drugs which continued to be produced at a higher cost and cheaper substitutes were being marketed by its competitors in the private sector. It was seen in audit in February 1995 that the Company supplied Refampicin to its Divisional Sales Office at Lucknow without any demand which was in violation of the provisions in their Distribution Manual. As a result, Refampicin worth Rs.11.17 lakhs accumulated in the Division and the stock became time-expired in December 1994 and January 1995.

The Ministry inter-alia stated (January 1997) that

delay in debonding of items (from the bonded warehouse) did not take place on account of fund constraints. It ascribed delay mainly to the time required to stabilise the manufacturing process over several parameters at the development stage. This resulted in slow consumption pattern of developmental items and change in market demand and supply pattern.

The reply of the Ministry is not tenable in view of the fact that time likely to be taken to stabilise the process at the development stage was known to the Management. The Company should have also considered the factors relating to market and the consumption pattern, before placing the orders for import, especially when the Company's financial condition was weak.

The case makes it evident that by effecting imports unmindful of its own financial position, the Company has blocked Rs.61.23 lakhs and paid interest of Rs.17.32 lakhs on customs duty thus further worsening the financial position of the Company and the stocks of medicines not lifted by the market became time-expired.

INDIAN PETROCHEMICALS CORPORATION LIMITED

2.2.1 Failure to avail of MODVAT

Under Modified Value Added Tax (MODVAT) scheme, the central excise duty and the additional duty of customs (i.e. countervailing duty) paid on Normal Hexane (N.Hexane) used as catalyst by Indian Petrochemicals Limited (IPCL)in the manufacture of polymers, can be adjusted against the excise duty payable on the final product, Polymers. To avail of MODVAT benefit on the imported consignment, the importer has to submit original bills of entry (BEs) to the excise authorities at the time of removal of excisable final products.

The Company imported two consignments of N.Hexane- one in March 1994 (491.27 tonnes) and the other in September 1994 (968.845 tonnes). On clearance of each consignment by the Baroda Unit, a part thereof was sent for use in another production unit of the Company at Nagothane. As both the production units used the imported N.Hexane as input for production of the final product i.e. Polymer, additional customs duty paid on the entire quantity of imported N.hexane was adjustable as MODVAT against demand for excise duty. But the original documents i.e. BEs, on the basis of which MODVAT credit could be claimed, being common, were available with only Baroda unit and were used by that unit for claiming MODVAT credit. MODVAT credit in respect of quantity consumed by the Nagothane unit to the extent of Rs.21.75 lakhs could not be availed of by that unit. This resulted in the extra cost to the extent of Rs.21.75 lakhs.

The Management, while admitting the facts, stated (June 1996) that in the absence of original BE the MODVAT claim had become time-barred.

The Ministry also admitted (November 1996) the loss and attributed the same to system failure. It also stated that IPCL has taken corrective steps.

2.2.2 **Loss due to supply of raw-material to a supplier without adequate security**

The Company placed (November 1992) an order on a Nasik firm (supplier) for conversion of Low Density Polyethyline and Linear Low Density Polyethylene granules into Gusseted Film Rolls used in the packaging of products. The initial order of 350 tonnes (November 1992) went upto 600 tonnes by April 1994 and 700 tonnes by October 1994.

IPCL released a total quantity of 457.425 tonnes of granules during the years 1992-93 to 1994-95 against which the supplier supplied 365.017 tonnes of acceptable film

rolls upto June 1995. The balance quantity of 92.408 tonnes valued at Rs.51.75 lakhs was unauthorisedly removed by the firm before closing down the factory.

The initial order placed on the supplier stipulated that the contractor would furnish a bank guarantee of Rs.56,000/- against every tonne of granules released by IPCL. Subsequently in October 1993, IPCL decided to issue granules equivalent to twice the value of bank guarantee. In October 1994, the amount of bank guarantee was further limited to Rs.10 lakhs on a lumpsum basis. But after supplier firm closed its factory, it was noticed by the Company that three bank guarantees amounting to Rs.25 lakhs furnished by supplier during August to December 1994 were forged. While bank guarantee cover for the material was being gradually reduced, no care was taken to atleast verify the bank guarantees at the time of being accepted. Two bank guarantees were, infact, accepted despite manifest defects i.e. two bank guarantees having same number of the same branch of the Bank. Misplaced confidence in the integrity of the supplier firm thus resulted in loss to the Company.

The Ministry stated (December 1996) that strict instructions were being issued to all formations in IPCL about verification of the genuineness of bank guarantees before they were accepted. The Ministry's reply has, however, not gone into the reasons for making the conditions of bank guarantee more favourable to the contractor.In any case,even if the BGs had been genuine, IPCL could not have recovered Rs.26.75 lakhs,being the value of granules issued in excess to the supplier firm without any security.

CHAPTER 3

MINISTRY OF CIVIL AVIATION AND TOURISM

DEPARTMENT OF CIVIL AVIATION

AIR INDIA LIMITED

3.1 Avoidable expenditure on engagement of two lawyers for similar work.

Air India (AI) Headquarters, in April 1990, approved a proposal mooted by its Frankfurt unit to terminate, with effect from 31 December 1990, the services of its legal advisor 'X' retained since 1974 and receiving an annual fee of DM 13200 besides reimbursement of miscellaneous charges (DM 720) and free air passages (by Air India) upto DM 10,000. In his place, another lawyer 'Y' was retained at a retainership fee of DM 13200 for the first year beginning from 1 January 1991, with an option to continue for following two years at an enhanced fee of DM 15600 and DM 18000 per annum besides free annual AI passages upto DM 10000. Despite this, lawyer 'X' was allowed to continue handling of court cases pending with him as of 31 December 1990. In all, he was entrusted with 35 cases including fresh cases as against merely 5 referred to the formally appointed legal advisor (lawyer 'Y').

The services of lawyer 'X' had been terminated on the grounds that his advice on cases relating to labour laws was ineffective owing to lack of specialisation in labour laws on his part. But, barely a few months later, i.e.in August 1991, AI Manager, Frankfurt cited the same reasons in a proposal for re-engaging him, stating that he was a qualified legal authority, a well known consultant for handling labour related cases and had provided satisfactory services over a period of time. In August 1992, Air India Headquarters, unmindful of the turn around stance on the

part of local management at Frankfurt, approved this latest proposal without ascertaining the fee at which the lawyer 'X' was to be re-engaged even as the proposal was silent on this point.

For certain reasons, not evident from the record, the approval communicated by Air India Headquarters in August 1992 did not lead to execution of an agreement till 31 December 1993. Consequently, for all types of legal assistance rendered by lawyer 'X' during the year 1993 he was paid fee at an hourly rate. The fee thus paid aggregated to DM 65,210 whereas he had received only DM 30,000 towards services rendered by him during 1992 when he did not even have the regular retainership of AI. An agreement with him was ultimately executed in January 1994 at a retainership of DM 48,000 per annum. Throughout this period, AI unit at Frankfurt was also using the free legal consultancy services offered by Employees Association Legal Consultancy Service. Besides, it had also paid DM 48,769 inclusive of free air passages to lawyer 'Y' during the years 1991 and 1992.

Air India has thus incurred an extra expenditure of DM 83979 (Rs.16.25 lakhs) by terminating the services of a legal advisor without sufficient cause, by continuing to use his services despite termination of his services, by re-engaging him at a higher fee and by delaying execution of an agreement with him. Had his services not been terminated, the extra expenditure could have been avoided.

The matter was referred to the Ministry in July 1995; their reply has not been received (January 1997).

AIRPORTS AUTHORITY OF INDIA

3.2.1 Irregular allotment of space to a private party

The Authority created an eye-shaped counter with 22 segments inside the customs arrival hall of Terminal-II of Indira Gandhi International Airport in 1995, for providing

various facilities like transport, accommodation, airline/railway bookings etc. to passengers. Nine counters were allotted to a private firm with effect from 19 November 1995 for one year, extendable to four years. Six more counters outside the customs arrival area were also allotted to the said firm for :

1. Hotel Reservation (Domestic and international)·
2. Airline Booking;
3. Communication Facilities (STD/ISD);
4. Railway Booking;
5. Providing tourism and travel related information and distribution of leaflets etc.;
6. Ground Transport;
7. Any other service with the prior approval of the Board of the Authority.

On an objection by the Railways with regard to allotment of counters to a private party for railway booking against the policy of their department, two counters out of 6 outside the customs arrival area were restored to the Railways on 23 February 1996.

Eventhough the firm was a private party, space was allotted to the party for commercial operations without calling for tenders in violation of laid down procedures. The proposal was neither put up to the Board nor the allotment intimated to it for ratification of the Agreement.

For allotting space and other pieces of land belonging to it the Authority charges licence fee which is revised upwards every three years. Also, as per practice in vogue in the Authority, where space is allotted to private parties for counters outside the customs area, royalty is levied in addition to the licence fee. While the prevailing rate of licence fee in November 1995 was Rs.302.50 per square metre per month, and the rate of royalty ranged from Rs.7.50 lakhs to Rs.8.40 lakhs per annum per counter, the Authority had

allotted 68.40 square metres to the private party on payment of only a token licence fee of Re.1 per month.

As per the general practice of the Authority in respect of revenue contracts, a fixed percentage of the gross turnover is to be charged from the licensees per annum in addition to the licence fee. It was, however, noticed that the Authority had incorporated a clause in the Agreement whereby the party was to pay 15 per cent of their net profit, instead of a percentage of their gross turnover to the Authority. This was despite the fact that the party had offered to pay 10 per cent of their net income to the Authority for the counters outside the customs area (the party also projected a net loss of Rs.7.13 lakhs for the first year of its operations at the airport). As is evident from this clause, if the party incurs loss, the Authority cannot claim any payment as a percentage of net profit in contrast to what the Authority has been doing with regard to other contracts.

The counters have, thus, been given virtually free of cost to the party without following the prescribed procedure and the Authority lost Rs.2.23 lakhs by way of licence fee besides a minimum royalty of around Rs.34.00 lakhs in the first year.

The Management stated (October 1996) that they had allotted space to the firm on an experimental basis for providing facilitation to the passengers for hotel accommodation, transport, airline/railway bookings etc.and to encourage co-operatives and not with commercial interest. It was further stated that the services provided by the Authority, the Government Tourism and Travel Department, India Tourism Development Corporation Limited (ITDC) and other agencies did not match international standards and, therefore, they had allotted counters to the firm to create infrastructure.

The reply of the Management is not acceptable in view

of the following:

a) The services to be provided by the firm are commercial services and cannot be treated as non-commercial/complimentary in nature.

b) Two counters meant for Railways for computerised reservation facility were also initially, handed over to the firm against the policy of the Government.

Request from ITDC also for providing additional counters at the airport was overlooked while allotting counters to the firm although the work handled by the latter is similar to that of ITDC and would amount to duplication of services.

It was observed that the firm was not actually utilising all the counters that were allotted to them and the Authority's own estimation was that nine counters(as against fifteen counters allotted) would be sufficient to meet the requirement. Despite this, the Authority had not allotted space to Railways and ITDC. As these two Government organisations have been paying the agreed amount of licence fee to the Authority, non-allotment of space for counters to them in preference to the firm has resulted in avoidable loss of revenue to the Authority.

(c) As the firm was registered as a co-operative society only in September 1994 and had no prior experience in handling such activities, it is not clear on what basis it was established that the services to be provided by the firm would be of international standard as against those which the Government agencies, including the Authority itself, were providing.

(d) The performance of the firm was considered unsatisfactory by the officials of the Authority who had carried out an evaluation of their services on 31 May 1996 and 20 August 1996. The Commissioner, Bureau of Civil Aviation Security had also commented adversely on

the allotment of counters to the firm. Despite these adverse reports and the loss of revenue, the Authority renewed the contract with the firm for one more year with effect from 19 November 1996. Although the current agreement stipulates that the party would pay the normal licence fee in addition to 20 per cent of the gross turnover or Rs.50,000 p.m. whichever is higher, the fact remains that the Authority has once again allotted space without tendering and without the approval of the Board.

The allotment of space to the firm without calling for tenders, without following the normal procedure of charging licence fee and royalty, for providing the same services/facilities which are being provided by Government agencies, and above all without the approval of the Board is, thus, not only grossly irregular, but has also caused loss of revenue amounting to Rs. 36.23 lakhs to the Authority.

The matter was referred to the Ministry in December 1996; their reply has not been received (January 1997).

3.2.2 Infructuous expenditure on purchase of Ground Power Units

With a view to ensuring better control on vehicular movement and minimising pollution at Bombay and Madras Airports, the erstwhile International Airports Authority of India (now International Airports Division of the Airports Authority of India) purchased four aerobridges (cost Rs.292.78 lakhs) integrated with static Ground Power Units (GPUs: cost Rs.33.52 lakhs) from an American company 'J' The units were meant for use by the National carriers- Air India and Indian Airlines in place of portable GPUs run on diesel. Two GPUs were received and installed at Madras Airport in April 1989 and the other two at Bombay Airport in March 1992. The GPUs could not be put to use mainly because Air India and Indian Airlines had their own GPUs which were

also lent by them to other airlines on commercial basis.

As no users for the GPUs were available since their installation, the Authority declared (in March 1994) them surplus to their requirement and proposed to transfer the two units installed at Madras to Indian Airlines at Calcutta Airport on cost basis. The proposal, however, did not materialise. The efforts of the Authority to sell the GPUs to various other domestic Airlines, Airforce and Navy also did not fructify.

While a decision to provide static GPUs for In-contact Bays was taken in a meeting attended by the representatives of Air India and Indian Airlines, the Authority did not have any concrete understanding with the two National Carriers for utilising the equipment gainfully. The Ministry endorsed (May 1996) the reply of the Authority that in a meeting it was confirmed by Indian Airlines and Air India that GPUs available with them would not become redundant and that they would use them for remote parking bays or in their maintenance hangers. However, it was observed in audit that Air India and Indian Airlines had never requested the Authority to provide for the GPUs as both the carriers had their own GPUs which were also lent by them to other Airlines.

Thus due to injudicious purchase, the Authority was saddled with four GPUs which it was neither able to utilise commercially nor dispose off. The expenditure of Rs.33.52 lakhs incurred on the purchase of these four units was, therefore, infructuous.

3.2.3 Failure to enforce contract - loss of revenue

Airports Authority of India (International Airports Division) allotted 15,000 square metres of land in May 1987 to a private party (Firm'A') on a 30 years lease for the

construction of a flight kitchen at Terminal-II of the Bombay Airport. Firm 'A' had already been allotted another plot of land measuring 5658 square metres by the Authority for a flight kitchen at Terminal-I of the Bombay Airport. The terms of the agreement for the new plot at Terminal-II made it, inter alia, incumbent upon Firm 'A':

1. To pay licence fee at the rate of Rs.50 per square metre per annum subject to revision effective from 1st January 1990 and thereafter at an interval of every three years;
2. To pay 3.25 per cent of the gross turnover of the flight kitchen to the Authority; and
3. To surrender the land allotted at Terminal-I on commissioning of the new flight kitchen.

In the event of the failure of Firm 'A' to surrender the above mentioned plot within 30 days of the commissioning of the new flight kitchen, the Authority had a right to take possession of the land without payment of any compensation to the party.

It was, however, observed in audit that:

(a) The allotment was made without obtaining competitive rates by inviting open tenders. The Ministry admitted (August 1991) that the Board of the Authority had decided that in future tenders would be called for any allotment of land to hotels or private parties.

(b) Due to wrong demarcation, a triangular plot measuring 940 square metres was left out. The Management stated (September 1994) that the plot was contiguous to other properties and could be effectively used. The reply of the Management is not tenable as Firm 'A' had already encroached upon 593 sq.metres of this piece of land by constructing a septic tank and a water recycling plant. The party offered to pay for this area but the Management has neither claimed any licence fee nor has taken action to take possession of

this area from the party.

(c) Due to wrong demarcation of the plot allotted at Terminal-II, a set back of 14.25 metres only against the requirement of 20 metres was left for a road adjacent to the plot leaving no scope for the Authority to widen the road in future. The Management stated (September 1994) that the set back of 14.25 metres has been maintained by Firm 'A' due to the fact that the Bombay Municipal Corporation informed them that the west side compound wall had to be shifted by 5.75 metres and that there was no financial loss to the Authority on this account. However, it was noticed in audit that by-laws of the Authority requiring a set back of 20 metres for the road were violated due to wrong demarcation of the plot.

(d) Even after more than 5 years of the commissioning of the flight kitchen at Terminal-II, the party had not surrendered (April 1996) the land measuring 5658 square metres to the Authority at Terminal-I. Although the agreement stipulates that the Authority can take possession of the above piece of land without any compensation to the party, no action has been taken by the Authority in this regard so far (April 1996). The Management stated (September 1994) that the matter was being pursued with Firm 'A'. The party has been paying the rentals etc. only for 4334 square metres as against 5658 square metres of land. Besides, the party has encroached upon 1118 square metres of land for which the Authority has not initiated eviction proceedings.

(e) As of 31 August 1996, an amount of Rs.70.31 lakhs was outstanding against the party towards licence fee and share of turnover, apart from licence fee for the land encroached upon by the party for which bills were not being raised by the Authority.

The Ministry intimated (August 1991) that a comprehensive policy on land allotment and pricing was yet to be considered by the Board of the Authority. The Ministry also stated that the Chairman of the Authority has ordered

an enquiry into the matter to fix responsibility against the officer(s) concerned to check recurrence of such cases.

The matter was referred again in March 1995 for comments to the Ministry who endorsed (July 1995) the Management's reply of September 1994. No further progress in this case has been reported to audit so far (January 1997).

INDIAN AIRLINES LIMITED

3.3.1 Avoidable expenditure on brake cooling fan system

While placing order for the purchase of A-320 aircraft (1986), the Company opted for fitting brake cooling fan system (optional equipment) on the aircraft to cool the brakes faster and, in turn, reduce the turn around time (TAT) from 50 minutes to 30 minutes between two flights. The cost of the equipment, at US $ 52,500 each, was included in the price of the aircraft. However, as the system did not give satisfactory service and remained unserviceable since the beginning, the aircraft were operating without brake cooling fans. The Company stated that the problem of brake cooling fans was discussed with the manufacturer at various levels but due to lack of coordination they could not raise any claims on the manufacturer for failure of the system.

In July 1991,the French aircraft manufacturer and the cooling system manufacturer evaluated the problem and offered improvements to the system. However, these did not improve the reliability/performance of the equipment.

In June 1992, it was decided by the Company to delete the system from the 18 existing A-320 aircraft and 12 optional aircraft to be delivered during February 1993 to December 1994. The manufacturer, however, informed the Company that only the last five aircraft could be delivered without brake cooling fans as the lead time required to delete the system from the aircraft was 23 months. The price

of each aircraft was offered to be reduced by US$ 52,500 by the manufacturer, if the brake cooling fans were not fitted in the aircraft. While the cost of deletion of the system in respect of 25 aircraft (18 existing and 7 to be delivered in 1994) was stated to be US $ 5,20,000 the total reduction in cost of the 5 aircraft worked out to US $ 2,62,500. In view of the exorbitant charges, the Management decided not to delete the system from the 25 aircraft but preferred to have the five aircraft to be received at a later date to be without the brake cooling fans. However, the brake cooling fans could not be deleted from the last 5 A-320 aircraft also, as the operational performance of A-320 aircraft on shorter runways could not be assessed.

Despite the repeated failure of the system, the Management failed to act promptly in getting the brake cooling fans removed from the 12 additional aircraft, thereby losing US $ 6,30,000 (Rs.217 lakhs @ US $ 1=Rs.34.50 as on 31st March 1995 as the last A-320 aircraft was received during 1994-95).

The Management stated (November 1995) that in the present operating pattern, due to various operational requirements, the TAT was fixed at 50 minutes and it was found possible to operate the aircraft with the brake cooling fans off during operation.

The reply of the Management thus confirmed that an amount of Rs.217 lakhs could have been saved if they had acted well in time to delete the brake cooling fans from all the twelve additional A-320 aircraft and opted for the consequent reduction in price.

The matter was referred to the Ministry in January 1997; their reply has not been received (February 1997).

3.3.2 Avoidable expenditure

The Airbus A-300 B2 aircraft of the Company had Lucas brake fan motor fitted in. The French manufacturer of A-300 aircraft recommended the use of Technofan brake fan motor in place of Lucas brake fan motor in July 1981 due to numerous complaints from aircraft operators relating to poor performance and non-availability of complete fan spares. It was stated by the manufacturer that the Technofan brake fan motor met the requirements of certification and endurance test under the specified temperature conditions and was interchangeable with Lucas motor by change of some parts. While the two A-300 aircraft received in June 1982 were fitted with Technofan motors, the Company however, continued to use Lucas motors on the existing aircraft and purchased 56 motors during 1988 to 1991 from Lucas despite poor performance and very high rate of scrappage. It was only in March 1991 that the Company discontinued the procurement of Lucas motors and started using Technofan motors. The Management also took almost 9 years in assessing the performance of Technofan brake fan motors to find that performance of these motors was very satisfactory.

It was observed in audit that the cost of a Lucas brake fan motor was Rs.0.60 lakh more than that of a Technofan brake fan motor. Consequently, the Company incurred an avoidable extra expenditure of Rs.33.96 lakhs on the procurement of 56 Lucas motors during 1988 to 1991. This is apart from Rs.12.82 lakhs incurred by the Company on replacement of 10 Lucas motors during the warranty period itself as it could not convince M/s Lucas Aerospace about the operating conditions under which the fan motors got damaged. It was also noticed that 126 Lucas motors were scrapped during the period 1986 to 1994 as against 5 of Technofan.

The Management in their reply (October 1996) stated that they had delayed the decision to replace Lucas motors

by Technofan motors in order to assess the latter's performance.

The reply of the Management is not tenable as the manufacturer of the aircraft had recommended the replacement of Lucas motors by Technofan motors owing to poor performance of the former. The recommendation of the manufacturer is also borne out by the fact that 126 Lucas motors were scrapped during the period 1986 to 1994 as against five Technofan motors during the same period.

Thus, by continuing with the use of expensive but inferior quality Lucas fan motors disregarding the advice of the manufacturer for replacing them by Technofan motors as far back as 1981, the Company had to incur an avoidable extra expenditure of Rs. 46.78 lakhs.

The matter was referred to the Ministry in November 1995; their reply has not been received (January 1997).

3.3.3 Infructuous expenditure on operations to Tashkent

The Government of India entered into a Memorandum of Understanding with Uzbekistan in March 1993 with regard to the operation of air service between the two countries. Pursuant to this, the Company carried out an analysis of the route economics in June 1993 and decided to commence operations in September 1993 with twice-a-week frequency. The Company also posted (September 1993) a Station Manager and an Airport Manager to oversee its operations at Tashkent. It was only then that the Company came to know that it was required to be registered as a company with the Ministry of Foreign Economic Relations of Uzbekistan, before any business operations could be undertaken in that country. This accreditation was accorded by the Government of Uzbekistan with effect from Ist November 1993. In December 1993, the Company appointed sales agents in Tashkent to

provide infrastructural facilities to its staff posted there, at a consideration of 3 percent of the total sales of the Company's tickets ex-Tashkent. It was decided to commence operations in December 1993 once the facilities were put in place. However, operations did not commence in December 1993 as winter was not considered an appropriate time for commencing operations which were rescheduled for April 1994. This schedule also could not be adhered to due to the advice of International Civil Aviation Organisation (ICAO) that it was unsafe to overfly Afghanistan airspace. One of the two officers posted at Tashkent was transferred to Kuala Lumpur in September 1994 and the other official was transferred back to India in November 1994.

The Management stated (July 1996) that the Company opted for operating flights to Tashkent independently instead of collaboration with Uzbekistan Airways as the Ministry of Civil Aviation was keen to establish an independent presence in the market rather than depend on Uzbekistan Airways, which is its principal competitor on the route. It was further stated that the Company's operating costs would have been higher if they had tied up with Uzbekistan Airways. The posting of Station Manager and Airport Manager was also justified by the Management as a normal practice to get acquainted with the local rules and regulations and establish their presence in the market before commencing operations.

The Ministry endorsed the reply of the Management in September 1996.

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

(i) The initial feasibility study conducted by the Company itself in June 1993 revealed that if it was to operate on its own, there would be an operating loss for the first three months of operations and after that a profit of Rs.2.40 lakhs per flight. Alternatively, if the Company were

to have a tie-up with Uzbekistan Airways, the profit envisaged was Rs.4.70 lakhs right from the outset.

(ii) The Company failed to ascertain the requirements with regard to registering itself with the Ministry of Foreign Economic Relations of Uzbekistan and, therefore, lost valuable time and could not commence operations in September 1993 as scheduled.

Thus, due to imperfect planning the Company could not fulfil the commitment given by it to the Government of India and the terms agreed upon in the Memorandum of Understanding between the latter and the Republic of Uzbekistan and incurred a wasteful expenditure of Rs. 26.13 lakhs.

CHAPTER 4

MINISTRY OF COAL

BHARAT COKING COAL LTD.(BCCL)

4.1.1 Idle investment on procurement of Automatic Ash Analyser

With a view to constantly monitoring the quality of raw coal as well as washed coal at the washeries, BCCL decided to instal Automatic Ash Analyser at suitable locations including raw coal/washed coal main belt conveyor so that spot percentage of ash in the coal passing over the belt is available for the entire day. This was meant not only to ensure round the clock feed back on the quality of raw coal received and washed coal despatched but also to enable the washery management to take corrective steps in time before despatch of washed coal to steel plants. This was also to help avoidance of controversies over ash content with Steel Authority of India Ltd.(SAIL).

Accordingly, the Company imported Radiometric Ash Meter from Poland with Belt-Slip-Relay in July 1987 for its Moonidih washery at a cost of Rs.13.89 lakhs. The equipment was received at site in November 1987, but has not been installed and commissioned till date due to some technical defects. Further, two more Radiometric Ash Monitoring System, including spares, were procured in June 1990 from Poland through M/s Andrew Yule & Company , each for its Moonidih Project and Sudamdih Project at a cost of Rs.15.95 lakhs and Rs.15.90 lakhs respectively. These equipment also, despite being received at site in June 1990, were not commissioned till date (January 1997). The system meant for Moonidih Project was diverted to Moonidih washery where the equipment has been lying uninspected. The equipment at Sudamdih Project also remained uninspected even after

expiry of five years.

While accepting the facts and figures, the Management stated (August 1996) that they were still hopeful of removing the inherent defects of the equipment and their installation in the near future.

Thus, failure to instal and commission the equipment has resulted in not only blockade of funds of Rs.45.74 lakhs for over 6 years but the purpose for which the equipment were procured has also been defeated.

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

4.1.2 Avoidable loss due to inordinate delay in repair and rehabilitation of an imported shovel

An imported shovel (DEMAG H-85) costing Rs.96.12 lakhs was commissioned at Sudamdih area (Damodar Open Cast Project) of BCCL on 9 July 1987. It broke down on 7 August 1989 due to failure of its main motor after running for 5544 hours as against expected life of 20,000 hours.

Due to sophisticated design and complexity involved, the shovel was got repaired through an outside agency on 30 November 1989. But after working for 7 hours only it failed. An attempt made by the repairing firm to repair the motor again on 30 January 1990 failed after the motor worked for 12 hours. Finding no other way, the Management decided (January 1991) to get the motor repaired from the supplier of the equipment.

In December 1991, it was detected that many of its vital parts were stolen inspite of posting of security guards. At that time, the cost of rehabilitation was estimated at Rs.75 lakhs. The Management procured a set of spares valuing Rs.10.29 lakhs during 1991-92 and a Motor valuing Rs.41 lakhs (approximately) in February 1993 for its

rehabilitation. But no progress was made till January 1995 when the shovel was decided to be shifted to Sijua Area. The shovel is yet to be rehabilitated. The cost of rehabilitation was reassessed at Rs.95 lakhs in March 1995 in addition to spares held in stock.

The Management attributed (August 1996) the delay to the complexity of design of the main motor making the repair locally unsuccessful, and drowning of the machine in rain water in August 1991, making it difficult to shift the same from underground.

Thus, the inordinate delay in rehabilitating the shovel had not only idled away its valuable life for 6 long years, but also has forced the company to incur huge expenditure on rehabilitation (over Rs.1 crore) including replacement of stolen parts, which was largely avoidable.

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

COAL INDIA LIMITED

4.2.1 Infructuous expenditure on purchase of Dumpers.

Coal India Limited (CIL) procured (1989-90) on lease basis 4 (Four) BEML-Make 85-Tonne Dumpers valuing Rs.424.64 lakhs through Canbank Financial Services Limited (CANFINA) for Rajrappa Project of Central Coalfields Limited (CCL) , a subsidiary of CIL. These dumpers were supplied by Bharat Earth Movers Limited (BEML), Bangalore against the purchase orders placed on them (March 1989) by CANFINA, which leased out the equipment to CIL for 9 years under an agreement of December 1988.

Despite clear indication in the purchase order to the effect that the equipment should be provided with automatic

fire detection and suppression system, the dumpers supplied by BEML to Rajrappa Project were not fitted with such system. CIL had accepted and commissioned these dumpers in November/December 1989. A certificate to the effect that the equipment had been erected and commissioned to their entire satisfaction, required from the Project Officer in terms of the purchase order entailing the supplier to get 20 per cent balance payment of the equipment from the lessor was also issued (January 1991) to BEML without insisting on installation of fire protection system. One of the 4 dumpers (Worth Rs.106.16 lakhs) was burnt by fire on 21 September 1991, causing total damage beyond repair to the equipment.

A three-man Enquiry Committee constituted (September 1991) by the Project Officer, Rajrappa Project, inter-alia, observed that had the automatic fire protection system been fitted to the dumper and had it functioned satisfactorily, the fire could have been suppressed in its preliminary stage and the colossal damage suffered by the equipment could have been avoided.

The dumper was insured with National Insurance Company under a Policy against fire. Only in March 1993 CCL informed about the fire accident to CIL. CIL lodged (April 1993) a claim of Rs.106.16 lakhs with the Insurance Company after a lapse of 19 months from the date of occurrence of fire against a limit of 12 months provided in the Fire Policy. However, in June 1993 the insurance claim was revised to Rs.100.29 lakhs, being the cost of replacement of damaged spare parts. The claim has not been settled till date (January 1997). Further, in the event of non-disclosure of material facts by the insured, the policy shall be voidable at the instance of the Insurance Company. Since CIL did not disclose the fact about the non-installation of fire protection system, while taking the insurance policy, contributory negligence could be attributed to them, and the claim stands the risk of rejection by the Insurance Company.

In terms of Lease Agreement, CIL has to pay lease rent aggregating Rs.121.28 lakhs (inclusive of sales taxes thereon) for the burnt dumper for the period from October 1991 to October 1998 (inclusive of unexpired period of lease) against which no benefit was/would be derived by the Company.

It is, therefore, observed that :

-acceptance of the dumpers without fire protection system was injudicious;

-delayed submission of insurance claim had resulted in blocking up of the scarce capital of the company; and

-payment of lease rent (Rs.121.28 lakhs) was infructuous.

In reply,the Management stated (September 96) that there was no loss of production due to non-operation of the dumper.

If the non-operation of the dumper did not affect production as observed by Management, the conclusion is that the expenditure on the purchase of the dumper (Rs.106.16 lakhs) was not only infructuous but superfluous too.

The matter was referred to the Ministry in December 1996; their reply has not been received (January 1997).

4.2.2 Avoidable extra expenditure on procurement of Shovels

While CIL was taking action for procurement of a 5.5 Cu.M rope shovel for Gevra Project of South-Eastern Coalfields Limited (SECL - a subsidiary of CIL) as per the Project Report, SECL on 10 May 1989 requested CIL to suspend the procurement action stating that instead they would be sending their proposal for procurement of one 10 Cu.M rope shovel. In September, 1989, dropping the idea of procurement of 10 Cu.M shovel, SECL requested CIL to procure one 4.6

Cu.M rope shovel instead. CIL, however, invited tenders for procurement of 5 Cu.M Rope Shovel. But, SECL again on 27 June 1990 changed the specification and requested CIL to procure one 10 Cu.M shovel in lieu of the said 4.6 Cu.M shovel to meet the higher targeted production.

It was noticed in audit that SECL had procured for the said project four identical 10 Cu.M Shovels from M/s Kobe Steel, Japan against purchase order dated 25 November 1987 for 3 shovels and repeat order dated 30 January 1989 for one shovel at Japanese Yen (JY) 2,99,216,000 CIF Calcutta each. The last one was received in June 1989. On 9 June 1989, the supplier offered to supply one or two more similar shovels at the same price of November 1987. The offer which was valid for 90 days was extended (28th September 1989) upto 31 October 1989, with the stipulation that thereafter the same would be subject to their written confirmation. Neither CIL nor SECL took effective action for availing of that offer. The SECL firmed up its requirement for 10 Cu.M shovel long after expiry of the validity of the offer. CIL invited global quotation as per provision of World Bank loan in September 1990 against which the offer (December, 1990) of M/s Kobe Steel, Japan for JY 382,216,000 CIF Calcutta was found to be technically suitable. The purchase order was placed in December 1990 and the equipment was received in August 1992.

Thus, due to inordinate delay in taking decision regarding the capacity of the shovel required by SECL, the lower rate (valid for more than 4 months) offered by the firm of Japan on 9 June 1989 could not be availed of and ultimately the order was placed on the same firm at higher rates resulting in extra expenditure of JY 83,000,000 i.e Rs.157.64 lakhs (Rs.100 = JY 5,26,500) on procurement of the shovel.

The matter was referred to the Management/Ministry in February 1996; no reply has been received (January 1997).

4.2.3 Avoidable expenditure due to non-classification of overburden

The North Eastern Coalfields (NEC) of CIL deployed contractors for removal of overburden (hard shale and ordinary earth @ Rs.29.40/cum and Rs.11.60/cum respectively) through open tender at Tirap Open Cast Project for a period of one year ending on 1 May 1991. An open tender was again floated in March, 1991 for removal of overburden for another two years from 2 May 1991 in which ordinary earth was deleted to classify it as hard shale. Pending finalisation of the new rates, the existing contractors who also quoted against the fresh tender were allowed to continue.

The new rates for hard shale for two years effective from 2 May 1991, however, were finalised (March 1992) at the rate of Rs.35/ cum with an increase of 19.40 per cent over the previous rates. During the period of one year from 2 May 1991 to 1 May 1992, the contractors removed 19,49,177.45 cum of hard shale and 1,15,147.90 cum of ordinary earth as per survey/measurement done by the Company. In the absence of classification, the quantity of ordinary earth of 1,15,147.96 cum measured by the Company was treated as hard shale and the contractors were paid @ Rs.35/ cum. Had the classification of ordinary earth not been deleted and the escalation of 19.04 per cent increase as found in the revised tender finalised applied to the rates of ordinary earth over the previous one, the Company could have avoided extra expenditure of Rs.24.41 lakhs for treating ordinary earth as hard shale. Similar loss was sustained in the subsequent period (upto May 1993) when the entire overburden of 21,31,338.18 cum was removed without classification and treated as hard shale. The justification for non-classification has not been found on record.

While confirming the facts and figures, the Management, inter-alia, stated (October 1995) that due to the political disturbance prevailing in the state of Assam,

fresh tender could not be called and it was extended upto 30 April 1991. In 1990, when normalcy slowly came in the area, a proposal was made by NEC for hiring of heavy earth moving machinery (HEMM) to meet the demand of coal here. It was suggested in the said proposal that a composite rate should be given in place of item-wise rates for ordinary earth and hard shale for operational necessity. The Management further stated that to fulfil safety requirements, advance excavation of soil/earth was made. With the result, the ratio of ordinary/loose earth vis-a-vis hard shale gradually came down, which was only 1 per cent against 99 per cent of hard shale in 1990-91.

The fact, however,remains that the withdrawal of classification of ordinary earth in the contract for overburden removal had not only resulted in huge avoidable loss but had also led to granting of undue financial benefits to the contractors.

The matter was referred to the Ministry in October 1995; their reply has not been received (January 1997).

EASTERN COALFIELDS LTD.

4.3 Loss on excess supply of coal due to defective Weighbridge

One In-motion Electronic Railway Weighbridge was commissioned on 16th August 1994 at Andal Railway Yard by the Railway Authorities. Weighing of coal of Kajora area of the Company started on this weighbridge from the date of commissioning. By the end of August 1994, the ECL Management came to know that the weighbridge had been abnormally under-recording the load. On 30th August 1994, the matter was brought to the notice of the local Railway authorities at Dhanbad but the Management did not pursue the matter vigorously for prompt rectification. The under- recording of load was confirmed by means of volumetric measurement

followed by weighing at Chitpur/Ultadanga Weighbridge on 13th and 14th October 1994. Thereafter, the Management took up the matter on 19th October 1994 with the Divisional Manager, Eastern Railways, Asansol for rectification of the Weighbridge, and the same was rectified on 24th October 1994. During the period from 16th August 1994 to 24th October 1994, the Management assessed that 15,648 MT of coal valuing Rs.176.59 lakhs had been supplied in excess of the invoiced quantity. Subsequent billing to consumers for the excess supply detected, yielded no results.

Thus, lack of coordination in pursuing the matter regarding immediate rectification of defects in the weighbridge with the Railway authorities at appropriate level had resulted in a loss of Rs.176.59 lakhs to the Company.

Confirming facts and figures as stated above, the Management stated (June 1996) that the matter of under-recording of load was taken up with the Railway authorities as soon as it came to their notice. It was further stated that request was also made to Railway authorities at various levels including at the level of Coal Minister for issue of revised Railway Receipts. Since no response was forthcoming from the Railways, legal opinion for filing the claim in the Railway Claim Tribunal was obtained and permission for filing the same has been sought from the Ministry of Coal.

The matter was referred to the Ministry in August 1996; their reply has not been received (January 1997).

NEYVELI LIGNITE CORPORATION LIMITED

4.4.1 Delay in commissioning of LSHS firing system

Based on the decision of the Ministry of Petroleum that it would not be possible to supply furnace oil to power

stations in view of the anticipated shortage of furnace oil in future, the Central Electricity Authority had advised (February 1985) Neyveli Lignite Corporation Limited (NLC) to provide necessary conversion facilities for using Low Sulphur Heavy Stock (LSHS) in lieu of furnace oil in its Thermal Station I (TS I) boilers.

This conversion project was entrusted (November 1987) to M/s Indian Oil Corporation Ltd. (IOC) as a deposit work at an estimated cost of Rs. 154.87 lakhs subject to revision based on the price at which the work was awarded by IOC to its sub-contractors, with November 1988 as the completion date. The completion date was subsequently extended upto 31 August 1989 without levy of liquidated damages and was further extended to 31 March 1990. The cost payable to IOC was accordingly determined at Rs.223.30 lakhs in November 1988. The project could not be commissioned (January 1997) as the required parameters as per the contract specification could not be achieved resulting in idle investment of Rs.202.60 lakhs (paid to IOC so far) for nearly 5 years and also continued use of furnace oil in TS-I costing Rs.289 lakhs extra to the company.

The Ministry stated (July 1996) that efforts are being made and the matter vigorously pursued at the highest level to commission the system without further delay and that the investment of Rs.202.60 lakhs and extra cost incurred by use of furnace oil worth Rs.289 lakhs from 1990-91 to 1995-96 have been reckoned while fixing the power tariff with Tamil Nadu Electricity Board (TNEB). The reply is not tenable in view of the fact that due to non completion and non commissioning of the system, the objective of curbing import bills and use of indigenous product, instead, has not been achieved so far resulting in avoidable expenditure of Rs.289 lakhs and also blockage of investment of Rs.203 lakhs. Moreover, the burden of this extra and idle expenditure is ultimately borne by the electricity consumers.

4.4.2 Avoidable extra expenditure due to delay in handing over work fronts.

The Company entrusted (September 1988) the setting up of a plant illumination system in four units and common areas of its second thermal power station to firm 'A' at a total cost of Rs.180.10 lakhs. As per terms of the agreement, the contractor was responsible for mobilising the materials at site by June 1990 and completing the erection, testing etc.by March 1991. Progress of the work was affected as the Company did not hand over the work fronts to the contractor as scheduled. Of the four units proposed to be illuminated, while some of the work fronts in respect of two units were handed over belatedly,work fronts in respect of other two units were not ready even by the time the agreement was scheduled to close (April 1991). The contractor, on his part, was unable to keep up the supply and erection as per schedule. The Company found the performance of the contractor unsatisfactory and hence decided to entrust the remaining works of 3 units to other contractors. A notice was issued to the firm'A'in August 1991 and the contract cancelled in October 1991,citing "contractor's default" as the reason with a view to recovering any additional cost in handing over the work to other contractors, from firm 'A'. The Company sought to withhold from firm 'A' their contract performance guarantee amount, as well as to recover liquidated damages from their bills. The contractor, however, refused to accept financial or any other liability and maintained that the failure of the contractor could be attributed to the Company's own failure in not handing over the work fronts in time.

The Company admitted (May 1993) that it was not in a position to handover the relevant fronts within the stipulated time and it had not been able to recover from firm 'A'the extra expenditure amounting to Rs.73.43 lakhs incurred in completing the remaining works by other

agencies.

The Ministry stated (September 1994) that against the extra expenditure of Rs.73.43 lakhs pointed out by Audit, the Company had retained the benefit of Rs.21.07 lakhs on account of interest, liquidated damage, contract performance guarantee and outstanding bills. As the delays were mainly due to belated release of fronts to the illumination work owing to delays caused by other contractors, the remaining amount of Rs.52.36 lakhs could not be recovered from firm'A' which, the Ministry stated, would be borne in mind while making final payments to the other interface contractors.

The Company has not so far (January 1997) taken any concrete steps to recover the amounts from the interface contractors.

Thus the Company's failure to coordinate the work properly resulted in extra expenditure of Rs.52.36 lakhs which was avoidable.

CHAPTER 5

MINISTRY OF COMMERCE

EXPORT CREDIT GUARANTEE CORPORATION OF INDIA LIMITED

5.1 Excess settlement of claim under WTPCG

The Company issued a Whole Turnover Packing Credit Guarantee (WTPCG) to Bank of India on behalf of an exporter of Mumbai. Due to financial difficulties, the exporter defaulted continuously and could not fulfil his commitments to the Bank. The Bank preferred (November 1991) a claim on account of default of Rs.81.58 lakhs towards packing credit(PC) granted to the exporter.

The Company settled (March 1993) a claim for Rs.61.18 lakhs being 75 per cent of loss of Rs.81.58 lakhs under WTPCG in respect of a claim lodged by Bank of India on 28 November 1991 due to continuous default and overdue position of export bills by an exporter. It was, however, observed that Bank of India had proposed (June 1990) a reduction of pre-shipment credit from Rs.110 lakhs to Rs.45 lakhs on the basis of various adverse factors (diversion of funds by extending the loans to family members and associate firms) noticed in the operation of account. Accordingly, the Head Office of Bank of India advised (August 1990) that no further disbursement in the export packing credit account should be made without prior approval of the Company in view of downward revision in Health Code (02) and reported reduction in the limit of PC to Rs.45 lakhs. However, inspite of consistent default, overdue position of export bills and advice from the Head office, the bank continued to grant packing credit advance without the Company's permission in violation of their own PC limit.

This resulted in excess settlement of claim of Rs.29.83

lakhs (Rs.61.18 lakhs minus Rs.31.35 lakhs) since the maximum permissible claim was only Rs.31.35 lakhs (being 75 per cent of Rs.41.80 lakhs).

The Ministry endorsed (February 1996) the views of the Management that the Bank could not force the exporter to bring down the outstandings to the reduced PC limit of Rs.45 lakhs immediately and therefore sanctioned further advance for effecting exports. As there was no improvement, the Bank preferred the claim and, taking all factors into consideration, the claim was settled.

The reply is not tenable as the claim exceeding the PC limit of Rs.45 lakhs arose mainly due to the Bank sanctioning advances in excess of the PC limit fixed inspite of advice of the head office of the Bank that further disbursement of packing credit advance should not be made without the prior approval of the Company in view of the downward revision in Health Code and consistent default by the exporter. In view of this, the Company should not have entertained and settled the claim.

5.2 Avoidable loss

On the request of a policy holder the Company, for the first time, approved (November 1981) a credit limit of Rs.2 lakhs in respect of goods exported to a buyer of U.K.and thereafter granted further credit limits on various occasions. After the credit limit of Rs.20 lakhs had been sanctioned (October 1987), the buyer faced problems since October 1988 in honouring payments on due dates and in some cases payments were delayed for periods ranging from 98 to 176 days due to sharp decline in the activities of the construction industry. In view of this, the Company granted (May 1990) extension of due dates from 180 to 210 days from the date of acceptance of documents for the shipment already effected. During the years 1990 and 1991, no exports were

made by the policy holder to the buyer.

In January 1992 the Company, at the request of the policy holder, again approved a credit limit of Rs.20 lakhs on 90 days basis. While approving the credit limit, the Company considered the Credit Agency Report of September 1990 which covered the buyer's financial position upto December 1988. The report indicated slow payments/overdues.

The policy holder reported (May 1992) the insolvency of the buyer and preferred (July 1992) a claim towards loss of Rs.12.21 lakhs which was settled (September 1992) by the Company at Rs.10.99 lakhs.

The Ministry while justifying the action of the Company stated (August 1995) that the Company had considered the experience, track record and overall position of the buyer since 1981. The reply is not tenable since the Company had approved the credit limit without considering the latest financial status of the buyer despite full knowledge of the buyer's default from October 1988 onwards and consequent absence of shipments to him during 1990 and 1991.

Thus, failure to consider the latest financial status of the buyer before approving credit limit, especially when the Company was fully aware of the problem faced by the buyer, resulted in an avoidable loss of Rs.10.99 lakhs.

CHAPTER 6

MINISTRY OF COMMUNICATIONS

(DEPARTMENT OF TELECOMMUNICATIONS)

HTL LIMITED

6.1 Procurement of components in excess over production needs

The Company was engaged in the production of electronic teleprinters for which it was the sole supplier to Department of Telecommunications (DoT) till 1991-92.Annual production targets were fixed by the Company on the basis of the requirements given by DoT. For 1992-93, the Company fixed a target of 14000 machines, assuming an increase of 40 percent over the previous year's order position (10,000 Nos.), based on the deliberations in Telecom Commission and Planning Commission and straightaway procured the entire requirement of components. However, DoT released order for only 10,500 machines as a result of which the Company was saddled with a surplus in the stock of components. Meanwhile, customer preference for electronic teleprinters waned with the advent of FAX/PC machines and also with a decline in demand for telex lines. In the absence of further orders from DoT,production during 1993-94 was curtailed to a very low level (2069 Nos) and dispensed with thereafter following Government decision in 1994-95 to phase out the production line. The Company is now burdened (December 1996) with an inventory of components valuing Rs.5.33 crores which was rendered surplus in 1992-93 itself.

The Management in its reply stated (November 1996) that technology obsolescence had overtaken planning/co-ordination of components procurement and hence the surplus. It was also contended by the Management that prospective market for

spares for maintenance support to customers for at least 10 years also influenced the decision to procure components. The fact, however, remains that the components were purchased without obtaining firm commitment from the prospective customer which had resulted in the blocking up of funds to the tune of Rs. 5.33 crores for over four years. The components were actually lying unused with no possibility of any use in production/servicing as the production line itself was phased out.

The matter was referred to the Ministry in November 1996;their reply has not been received (January 1997).

ITI LIMITED

6.2.1 Avoidable payment of excise duty due to failure to avail of MODVAT credit

Modified Value Added Tax (MODVAT) scheme, introduced by Government of India from 1 March 1986, allows manufacturers to obtain reimbursement of excise duty paid on the inputs if the final product bears excise duty. Under the scheme, credit could be availed of by producing original duty paid documents like gate passes or bills of entry; certified copies of gate passes would be accepted in case original duty paid documents were lost. The facility of claiming credit on the basis of certified copies of gate passes was withdrawn by the Excise authorities from January 1993.

The Bangalore Complex of the Company , which has been availing of such MODVAT credits, could not avail of credits to the extent of Rs.193.51 lakhs relating to the period from March 1986 to March 1992 for want of original duty paid documents or certified copies of duty paid documents. This was on account of non-reconciliation of eligible credits with the credits actually availed of and lack of follow up in obtaining the missing original documents or certified copies of duty-paid documents. The amount was , therefore

written off in the accounts for 1993-94.

In March 1994, Government changed the basis of claiming MODVAT credit from gate passes to invoices but allowed the manufacturers time till June 1994 to avail of credit relating to earlier periods on the basis of gate passes. For want of gate passes the Company could not avail of credit of Rs.37.72 lakhs in respect of 1992-93 before the stipulated date.

Thus the Company had to bear an additional liability of Rs.231.23 lakhs towards central excise duty which could have been avoided by furnishing original or certified copies of duty-paid documents of inputs.

The Management stated (October 1995) that the credits could not be availed of for want of original duty-paid documents, which were mostly lost in transit. The Management's reply that change of procedures for availing of MODVAT credit caused difficulty and no action could be taken to avail of the credit on copies of lost documents is not relevant as major portion of the amount written off (Rs.193.51 lakhs) relates to the period upto March 1992 which was prior to the withdrawal of the facility of claiming credits on copies of gate passes in January 1993. Further, major portion of the loss is attributable to lack of reconciliation and follow-up within the Company when the system of claiming the credits was centralised. The Company has not taken action so far to obtain the approval of the Committee of Secretaries for filing a case in the High Court of Karnataka regarding denial of credit on certified copy of gate passes as contemplated in their reply.

The above loss was reported to the Ministry in March 1995; their reply has not been received (January 1997)

6.2.2 Loss in software development due to defective mode of payment clause in the agreement.

The Company entered into a tripartite agreement in April 1993 with firm 'A' of USA and firm 'B' of Singapore, for the development and export of Minxware project and also for its exclusive marketing rights. As per the terms of the agreement the Company had agreed to purchase tool kits from firm 'B' for US $ 3,35,000 and to employ its engineers for development activities. Firm 'B' had agreed to buy the developed software for US $ 6,00,000 payable in various stages. Accordingly, Firm 'B' placed an order on the Company and the Company imported necessary tool kits from firm 'B'.

The Company successfully completed and delivered the software in December 1994. Though the Company has so far realised US $ 3,00,000, the final payment of another US $ 3,00,000, the invoice for which was preferred only in June 1995, after a delay of six months, is still outstanding from the customer. The Company established irrevocable Letter of Credit (L/C) for purchase of tool kits as insisted upon by the foreign firm, but it did not secure the payment from the foreign firm for the project by insisting in advance on establishment of irrevocable L/C. The payment terms in the Agreement do not specifically provide for the same though the general terms and conditions of the export sales of the Company provide that irrevocable L/C should be established 45 days in advance.

Eventhough the Company received a L/C towards final payment of US $ 3,00,000 the L/C was not honoured by the customer's banker due to certain discrepancies in the documents resulting in loss of Rs.12.49 lakhs by way of interest and difference in exchange variation. Meanwhile firm 'B' proposed a new tripartite agreement for marketing of one more new project called 'Point Man Project' and tried to linkup the payment of this project with their new proposal. However, the Company did not agree to take up this project and communicated the same to firm 'B'. According to

the Company the realisation of the amount has become doubtful and the Company is in the process of getting Board's approval for arbitration.

Further, the Company imported necessary tool kits from firm 'B' duty free as these items were to be used for 100 per cent export-oriented project, approved under Software Technology Park (STP). As per STP approval the proceeds of export realisation are to be realised within 180 days after completion of the project or else the entire customs duty (Rs.1.25 crores) exemption availed of, alongwith penal interest (Rs.56.25 lakhs upto September 1996), has to be remitted to the customs authorities. The extension of date sought by the Company, is also still pending with Reserve Bank of India.

Thus, the Company stands to lose Rs.297.37 lakhs due to its failure to safeguard the payment terms in the contract.

The matter was reported to the Ministry in December 1996; their reply has not been received (January 1997).

MAHANAGAR TELEPHONE NIGAM LIMITED

6.3.1. Wasteful expenditure on procurement of Subscribers Loop Carrier System

Subscribers Loop Carrier (SLC) System (1+1) is meant to provide two independent subscribers' circuits on a single physical pair by installation of battery eliminator in the subscribers' premises. These equipment are used to overcome the problems of technically non feasible (TNF) areas so that a telephone connection can be given in the absence of a spare circuit/channel.

MTNL procured 10020 SLCs and 131 racks worth Rs.764.71 lakhs from various suppliers* during 1989-93, out of which

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* M/S Mek Video Pvt.Ltd., M/S Himachal Futuristic Communications Ltd., M/s National Telecom of India Ltd. and M/S Mekaster Transmission Ltd.

3500 SLCs with 25 racks and 6520 SLCs with 101 racks were received by MTNL, Delhi and Mumbai units respectively for installation in their areas.

It was noticed in Audit during April 1994 to May 1996 that both in Delhi and Mumbai units of the Company, only 3332 and 1970 SLCs respectively were installed till October 1996. The Mumbai unit also utilised 34 racks. It was also noticed by Audit that in Mumbai unit the problem of TNF was not acute and, therefore, there was not much necessity of the equipment.

MTNL's Mumbai unit in May 1993, installed 10 SLCs with one rack at its District Telecom Training Centre, Mumbai for training purposes and in June 1995 diverted 1210 SLCs and 25 racks worth Rs.90 lakhs to Karnataka circle for their utilisation. Despite these efforts, only 36 SLCs and 6 racks were working at Mumbai and the remaining 1934 SLCs and 28 racks worth Rs.162.81 lakhs were still lying in non-working condition since their commissioning. Besides, 3340 SLCs and 41 racks worth Rs.280.32 lakhs were lying idle. In MTNL Delhi only 320 SLCs were working and the balance of 3180 SLCs and 25 racks worth Rs.265 lakhs were lying in non-working condition.

The unsatisfactory performance of these equipment was attributed by the Management to several factors like:

- Incoming ring getting interrupted frequently.
- Jack-in problem on the equipment because of loose fitting and consequential frequent interruption in the service.
- The printed card boards in the exchange terminal equipment going faulty.
- Lack of maintenance arrangement for repair of cards or subscribers' equipment.
- Poor quality of eliminators provided without any protective arrangement like fuse to avoid frequent burning of eliminators.

The Company also noted that there was resistance by the subscribers for installation of additional equipment at

their premises due to frequent interruptions in their telephone connections. Another problem in the deployment of these equipment was that in the event of disconnection of telephone connection provided on original circuit, the service to the other subscribers could not be provided on the derived circuit.

The Management did not take any action against the suppliers for supply of defective equipment by them. The suppliers were also not forthcoming for the repair of the system promptly. MTNL also failed to enter into a maintenance contract with them for day to day maintenance.

Thus, the following factors attributable to the Management led to a wasteful expenditure of Rs.708.13 lakhs:

- procuring the SLCs for Mumbai unit without any demand from them;
- not selecting the right type of equipment to meet its requirements; and
- not entering into annual maintenance contract with the respective suppliers after the expiry of warranty period for the proper maintenance of this costly equipment.

The Ministry while confirming the facts stated (January 1997) that some teething problems did appear due to introduction of new technology and these equipment had to be relegated because of advancement in technology and availability of new higher capacity and more advanced pair gain system.

The fact, however, remains that the management failed to visualise the frequent changes in technology in the telecom sector and went for bulk purchase of these equipment worth Rs.7.08 crores without assessing their requirement, which resultantly became obsolete in a short time.

6.3.2 Printing of Telephone Directories

In June 1986, the Department of Telecommunications decided on a new policy for printing and publication of

telephone directories through private contractors. The policy envisaged the issue of telephone directories every year, financed by advertising revenues. Interested parties were to provide paper, printing and binding as well as to obtain advertisements for inclusion in the directories. The franchisee was to supply free of cost adequate numbers of copies for distribution to telephone subscribers and for departmental use, besides a share in the advertising income. It was visualised that the policy would eliminate delay in periodical publication of the telephone directory as well as generate revenues for the department.

Accordingly, MTNL's Delhi unit entered into an agreement with M&N Publications Limited in June 1993 for publishing English telephone directory of Delhi, main and supplementary, from July 1993 to January 1998. The main directory was to be published in January and the supplementary in July every year. The agreement further provided that:

i) MTNL would receive Rs.30.03 crores by way of royalty from the franchisee which was payable in 5 equal instalments during the currency of agreement period; certain concessional terms in the manner of payment of royalty were also prescribed in the event of franchisee fulfilling other contractual obligations. Interest at 21 per cent of the unpaid amount of royalty was also payable by the franchisee. The contractor was required to publish the directory as a complete job and arrange to supply specified number of copies free of charge within 60 days of receipt of the magnetic tape from MTNL failing which he was liable for penalty at Rs.1 lakh per day's delay in supply subject to a maximum of 5 per cent of the annual royalty payable for main directory and Rs.0.50 lakh per day's delay subject to 2.5 per cent of the annual royalty payable for supplementary directories. In case of supply of atleast 75 per cent or above of specified number of directory the liquidated charges for the short supply would be at half the above

rates. In the event of non supply of directories he is liable to pay a penalty of Rs.3 per copy for the main directory and Rs.1.50 per copy for the supplementary directory.

Test check by Audit in February 1996 revealed that despite the contractor's failure to honour contractual obligation, MTNL failed to recover the charges due in the following cases as of May 1996:

(a) MTNL issued the manuscript of main directory for 1994 in the form of magnetic computer tape to the franchisee in May 1994 for printing of 9 lakh copies to be supplied by July 1994, against which they supplied 6.32 lakh copies only between October 1994 and March 1996. They also failed to supply the subsequent issues of the main and the supplementary directories, though the main issue for 1996 was due in January 1996. An amount of Rs.1.20 crores as liquidated charges for delay in supply and another amount of Rs.1.03 crores as penalty for non supply of directories was due from him.

(b) The franchisee paid an amount of Rs.3.03 crores as first year's royalty between January and October 1995 against the due amount of Rs.6.06 crores. The royalty amount of Rs.12.01 crores for the second and third years was also due. Besides this, an amount of Rs.3.19 crores was due as interest charges on the outstanding amount as on April 1996.

In brief, the Audit analysis of the case revealed the following points:

(i) Non recovery of liquidated damages and penalty amounting to Rs.1.20 crores and Rs.1.03 crores towards delay in supply and short/non-supply of the main and supplementary issues of directory right upto January 1996.

(ii) Non recovery of balance amount of first year's royalty amounting to Rs.3.03 crores and the royalty amount for the second and the third years amounting to Rs.12.01

crores besides penal interest amounting to Rs. 3.19 crores on the delayed paid amount and unpaid amount of royalty. Total amount on this account works out to Rs.18.23 crores. Taking into account the amount of liquidated damages and penalty of Rs.2.23 crores, the total amount not recovered worked out to Rs.20.46 crores.

The Ministry stated (January 1997) that due to failure of the contractor, the two bank guarantees of Rs.7.01 crores were invoked and amount realised from the Bank in April 1996 and the contract was terminated in July 1996. Further, a high level committee is proposed to be constituted by the Company to examine the case from legal angle and to work out the claims recoverable from the contractor. Further progress is awaited (January 1997).

The fact, however, remains that due to non-supply of updated copies of telephone directories the subscribers were put to great inconvenience and the Company could not recover the balance amount of Rs.13.45 crores from the Contractor on account of liquidated damages, royalty and penalty for short/non-supply of directories.

6.3.3 Infructuous expenditure on procurement of Digital Microwave Radio System

MTNL placed a purchase order in October 1990 on a firm for supply of 16 Digital Microwave Systems for providing highly reliable, high quality data/voice services in metropolitan cities - Delhi and Mumbai. The delivery was to commence within a month of issue of purchase order and completed within eight months.

The firm failed to supply any system within the stipulated delivery period and, in the meanwhile, requested MTNL in April and August/September 1991 for change in the specification of the system on the ground of certain import restrictions. The firm also requested for price increase in view of devaluation of rupee and also demanded an advance of

Rs.2.30 crores.

While accepting the demand of the firm for increased cost, the Company decided in December 1991 that any other exchange variation, either for the pre-devaluation or during the post-devaluation period, was not to be allowed. An amended purchase order, issued accordingly, resulted in an outgo of Rs.1.38 crores to the supplier. The delivery was, however, made in lots in March 1993 and in July/August 1993.

The firm was also granted an advance of Rs.2.30 crores in December 1991, with interest at current borrowing rate (not less than 20 per cent) compounded at quarterly basis from the date of payment of advance till the advance is adjusted.

The Company made a major relaxation on the quality assurance in view of urgent requirements by doing away with the process of inspection by the quality assurance wing and, instead, decided to get the system inspected by MTNL officers at factory site. This, however, was limited to the first five systems (three for Delhi and two for Mumbai).

Despite the relaxation made in the name of urgency, not a single system could be installed in Mumbai till September 1995, when only one system was installed in Mumbai and the other four diverted to Delhi unit by Mumbai, who decided that other four were not needed. This, despite the fact that the procurement of five systems was based on their own demand made earlier.

Of the 10 systems received by Delhi, only two were commissioned till May 1996. Of the remaining, one system was diverted to Jammu & Kashmir Circle in December 1994 and three were diverted to North East Circle. The two system commissioned in Delhi were also stated to be working unsatisfactorily.

Even though, the assessment of requirement for these systems was unrealistic leading to their non-utilisation, no

responsibilities were fixed in the matter and the Chairman - cum- Managing Director(C&MD) of the Company had to issue instructions to the Chief General Manager in May 1995, regarding the investigation into the non-utilisation of the system and issue of suitable instructions for immediate action for the proper utilisation of the systems lying in Mumbai.

Despite the fact that balance 10 per cent of the cost of the equipment was to be paid only after successful installation, commissioning and training of the system, the Company made full payment for all the 10 systems in August 1993 in respect of Delhi unit. However, in respect of remaining system for Mumbai unit, 90 per cent payment was made.

The Delhi Unit also erred in not charging the interest on the advance paid to the firm at the current commercial borrowing rate of 22.25 per cent applicable for the financial year 1992 till the period of adjustment of the advance. This caused a loss of Rs.18.40 lakhs to the Company.

The Company, therefore, incurred an extra avoidable expenditure of Rs.164 lakhs on account of increased cost due to devaluation which was solely attributable to inordinate delay in the supply of the system by the firm; the MTNL is loaded with two faulty system already commissioned while eight others remain un-commissioned due to faulty equipment and non-cooperation of the vendor. While the Company is unable to get the faulty system replaced or even attended to by the vendors, it has already released the total payments to them for supplies made to Delhi Unit.

Thus, the expenditure of Rs. 4.62 crores on procurement of 10 Digital Microwave systems remained unproductive and wasteful.

The Ministry stated (January 1997) that there was no other supplier of this equipment, as such the Company had to

agree to the conditions put forth by the firm in view of import restrictions by the Govt.of India and further the inspection in respect of 5 systems was dispensed with by the Company being a developmental order for which the specification was not finalised till then. It was further stated that out of 15 systems received, 5 were directed to other Circles of DOT, 7 have since been utilised and remaining 3 were under installation in Delhi Network.

The fact, however, remains that 3 systems received in March-August 1993 were still lying unutilised for which the warranty period had already expired and the Company was having only Rs.4.29 lakhs balance payment with them which was due to the supplier, to safeguard its interest in the event of malfunctioning of the equipments. Moreover, the Ministry's reply is silent about the date of actual commissioning of the equipment at Delhi and their satisfactory performance as 2 equipment installed upto May 1996 at Delhi were stated to be not performing well.

6.3.4 Infructuous expenditure on procurement of Automatic Message Accounting (AMA) System

In order to modernise the electro mechanical exchanges by providing computerised bulk billing and dynamic STD call locking facility to the subscribers, the Company placed a purchase order on a California-based firm in January 1988 for supply of 1,90,000 lines Automatic Message Accounting (AMA) System at a FOB cost of US $ 37,65,925 (Rs.5.61 crores) for Delhi unit of MTNL with a stipulation that AMA system for four exchanges were to be supplied in the first phase and subsequent supplies would commence after the evaluation of performance of these system jointly by MTNL and the Suppliers. The project was scheduled for commissioning by November/December 1990.

The Company also placed three purchase orders in April

1988 and February 1989 for 4,01,700 lines for similar system on three Indian firms for use by Mumbai unit. The rate per line ranged between Rs.419.18 and Rs.473.67; the total cost being Rs.17.90 crore.

Subsequently, MTNL amended the purchase order in respect of Delhi unit in August 1988 allowing the suppliers to ship the system upto a value of US $ 14,95,000 before issue of certificate of successful completion of performance evaluation of the system to be supplied under the first phase.

The Board of Directors, while sanctioning project estimate for Rs.9.31 crores in respect of Delhi unit in October 1988, decided that in the event of replacement of electro-mechanical exchanges by electronic/digital exchanges, MTNL would offer to the Department of Telecommunication (DOT) the surplus AMA system for use by them elsewhere.

Test check by Audit between May 1996 and October 1996 revealed the following:

-- Delhi unit could not use the system for 22,600 lines out of 69,600 lines received by it till date.

-- Delhi unit delayed the commissioning of the remaining system for a period of 3 to 6 years. In one of the exchanges, the commissioning was delayed mainly because of incomplete supply of the hardware by the suppliers in view of financial limit of US $ 14,95,000 in the Purchase Order. Out of the five exchanges, where these system were installed partly/fully from April 1992 to June 1993, three exchanges were decommissioned within a period of 1 to 3 years resulting in the premature scrapping of system (29,600 lines) despite their normal life of 18 years. The performance of these system in the remaining two exchanges was not satisfactory because these were procured without evaluation of their performance. In both these cases the system were not being used for giving detailed automatic STD

billing and STD locking facility to the subscribers. In one case the entire exchange is STD barred. This defeated the purpose for which the system was procured.

-- In July 1994 the Management decided to shift all the STD numbers from analog exchanges to electronic/digital in Delhi. This rendered the expenditure of Rs.5.27 crores in the procurement of 69,600 lines infructuous.

-- The Management failed to divert the surplus system to DOT despite express decision of their Board of Directors taken in October 1988.

-- In Mumbai there was a delay in supply by 6 to 40 months and subsequent delay in the installation of these AMA system received between August 1988 and January 1992 by over 1 year to 3 years.

-- Out of 1,85,200 lines installed at Mumbai between July 1990 and October 1994, 65,500 lines system were being used but their performance was not satisfactory, and these were not providing automatic STD billing and STD dynamic locking facility to the subscribers. The rest of the system (1,19,700) lines was lying unused after use for a short period ranging from 6 months to about 4 years. Interestingly some of these were installed in the exchanges already notified for scrapping. The said exchanges were infact scrapped soon after installation of the AMA system in disregard to the Board of Directors' decision to divert the system to DOT circles. Thus the expenditure of Rs.11.62 crores in the procurement of these system for Mumbai also proved infructuous.

The Ministry stated (January 1997) that the AMA system were installed in the electo-mechanical Telephone exchanges to enhance customer satisfaction although it was well known that in a relatively short time these would be overtaken by other more advanced technological developments; as such, it was not correct to call the investment on these system as wasteful. It was further stated that the system at Mumbai

were proposed to be utilised in C-400 exchanges.

The reply is not tenable since the system remained grossly underutilised because of various defects. The coming up of electronic exchanges was well known to the management and the procurement of the AMA system should have been planned accordingly.Further, the Ministry has not furnished any justification/reasons for installation of this system even in the exchanges already earmarked for scrapping and their subsequent non-diversion to the Circles of DOT where large electro-mechanical exchanges are still in operation.

Thus, planning deficiencies and Management's failure to take action against the suppliers for the incomplete supplies/defects in the system alongwith non-compliance with Board of Directors decision resulted in wasteful expenditure of Rs.16.89 crores as the chances of utilisation of these system are remote in view of the rapid technological changes and increasing obsolescence of the existing electro-mechanical exchanges.

6.3.5 Poor performance of Voice Mail Service

In order to introduce new value-added services in the country, the Board of Directors of the Company approved a proposal for initiating 'Voice Mail Service' to the telephone subscribers in May 1989. Voice mail service is a system by which one can leave recorded message to a given subscriber in the box meant and the same can be retrieved by the voice mail service subscriber by dialing the voice mail service code using PIN provision.

The Company placed a purchase order on a private company in November 1991 for supply of voice mail service system having 32 ports with 48 hours' message storage capacity to serve 2000 subscribers with a special condition

that the supplier shall be responsible for future expansion upto the ultimate capacity of 128 ports and 192 hours of memory of serving 8000 subscribers at fixed additional cost. The project estimate for introduction of voice mail service in Delhi unit at a cost of Rs.40.17 lakhs was approved in May 1992; the system was delivered by the supplier in July 1992 and was installed and commissioned in August 1992 at an actual cost of Rs.30.72 lakhs.

The voice mail service system was introduced in Delhi unit on the basis of a market survey in which the demand for the first year was expected to be of the order of 35,000 subscribers and accordingly the system was procured with the initial capacity of 2,000 lines expandable to 8,000 lines/subscribers to cater to these forecasts. It was, however, noticed in audit that in the last four years, number of subscribers, who availed this facility in Delhi unit, was very low resulting in idle capacity and gross under-utilisation of the facility. The number of subscribers, who availed of this facility in Delhi unit in the last five years ranged between 244 to 638 only.

As a result, the Company could earn a revenue of Rs.2.66 lakhs, Rs.4.53 lakhs, Rs.8.01 lakhs and Rs.12.81 lakhs only during the years 1992-93 to 1995-96 respectively against the estimated revenue of Rs.64.30 lakhs per annum. Even the estimated revenue expenditure of Rs.12.57 lakhs per annum could not be recovered from the revenue generated.

Further, the outstanding rent against voice mail subscribers has been increasing year after year and stood at Rs.6.61 lakhs on 31 May 1996 for bills issued upto 31 March 1996.

The audit analysis revealed that poor business promotion has been one of the reasons for the dismal performance of the scheme. The company had given advertisements on 3 occasions only in the last 4 years about this scheme. The Company did not give wide publicity of the

facility to the public at large with the result that nearly 2/3rd of the capacity of the facility remained unutilised even after four years of launching of the service.

Meanwhile, the Company have decided, on the basis of internal assessment done by them in May 1996, to upgrade the existing facilities with some additional features to be used for several other ancillary applications such as transfer of unanswered calls to voice mail box, provision of voice mail service to a subscriber during the time his/her telephone may be out of order for a long duration etc. Unless proper business promotion measures like publicity and advertisement are undertaken for propagating the usefulness of the system, the project would not be profitable.

The Ministry, while conceding that the demand for the system was very low, attributed (January 1997) the under-utilisation of the system to the provision of certain value added services, easy availability of telephone connections and not to lack of wider publicity. It was further stated that besides the revenue earned as pointed out by audit, additional revenue of Rs.9 lakhs per annum on account of calls made by the subscribers for storage and retrieval of message and also calls to give response to the caller was also generated, which was not included in the VMS bills. Further, there was also a saving of Rs.7.20 lakhs in expenditure by linking 180 level of telephone system for recording complaints, otherwise installation of 180 answering machine was required for the same purpose.

The fact, however, remains that the system was launched in haste without taking adequate business promotion measures and not foreseeing the related development in Telecom Sector; as a result the facility has remained grossly under-utilised.There is little chance for further improvement in the utilisation of the capacity as the Department of Telecommunications have opened this sub sector of value added services to private sector and have given licences to

private firms on non-exclusive basis.

6.3.6 Short/Non-billing due to various omissions

The Mahanagar Telephone Nigam Limited (MTNL) was formed as a Government company on 1 April, 1986 for taking over the management control and operation of telephone network at Delhi and Mumbai. The Company follows the codal provisions of the Department of Telecommunications in respect of issue of bills, etc.

For the purpose of timely and accurate billing, the codal provisions provide for (a) updating of Master Data under the computerised billing system for incorporating any change in the rental etc.; (b) return of completed advice notes within seven days after provision of the facilities by the Engineering Divisions to Telecom Revenue Accounting units (TRA); and (c) recovery of rental for the unexpired period of guarantee concerning premature surrender of guaranteed connections for the purpose of timely and accurate billings.

During test check of five per cent cases per quarter relating to 15 Telephone Revenue Zones between March 1992 and February 1996, short/non-billing of rental amounting to Rs.288.06 lakhs was noticed in 28 cases; the period of default ranged from 1987 (except one case of 1980) to July 1996. The omission occurred for want of completed advice notes from Engineering Divisions, non feeding of correct data to computer and non-observance of codal provisions.

The Ministry, while accepting the audit observations, confirmed the recovery of Rs.110.21 lakhs till November 1996. The company have further confirmed the recovery of additional sum of Rs.63.72 lakhs. Rs.114.09 lakhs for which supplementary bills have been raised, remain to be recovered.

6.3.7 Loss due to continuation of telephone connections despite non-payment of dues

Codal provisions stipulate that telephone bills are payable within 15 days of the date of issue, failing which the telephone connection is liable to be disconnected. In such cases disconnection will normally be made effective immediately after the 30th day of the date of issue of bills, and if due to any unavoidable circumstances it has not been possible to keep the date it should not be allowed to stretch beyond the 35th day.

Test check by Audit in April 1995 revealed that four subscribers (private parties) continued to avail of the telephone facilities for several months even after their failure to pay the first telephone bills in time. By the time telephones were disconnected, the outstanding telephone dues had accumulated to Rs.58.31 lakhs against bills issued between June 1993 and December 1994.

The local Management stated (December 1995) that the chances of recovery of this huge amount are remote as the whereabouts of the subscribers are not known and it has been decided to process the case for writing off this amount.

Thus, disregard of the codal provisions and failure to act promptly led to a loss of Rs.58.31 lakhs.

The Ministry, while confirming the facts, stated (December 1996) that efforts are being made to settle the dues as per departmental rules.

6.3.8 Short recovery of security deposit in respect of ISD/STD pay phones

As per departmental rules security deposits of ISD/STD pay phones, provided to subscribers, were required to be reviewed and revised every year and recovered on the basis of the average monthly revenue averaged over the last six months or minimum guarantee amount of Rs.9600 in respect of Pay Phones sanctioned prior to 24 July 1993 or Rs.5000 in

respect of pay phones sanctioned after July 1993, whichever was higher. The said provision was incorporated in the rules with a view to protecting the interest of the Company in the event of default in payments by subscriber and to generally act as a deterrent to such defaults.

An Audit test check conducted in September 1995 - January 1996 and August 1996 in Area offices (South, Trans-Yamuna, Central, East and West) revealed that the amounts of security deposits had not been revised and recovered as required under the rules. This resulted in short recovery of security deposit of Rs.121.99 lakhs out of which an amount of Rs.9.39 lakhs was recovered as of December 1996. The omission was the result of Management's failure to apply the codal provisions/instructions for timely raising of demands and recovery thereof.

It was also observed that most of the pay phone holders in whose cases security deposits were not revised upwards, did not pay their bills in time and an amount of Rs.53.20 lakhs of telephone revenue was outstanding against them. Thus, due to lapse on the part of the management, the Company not only lost the increased amount of security deposits but also had to face the problem of non-recovery of outstanding dues of Rs.53.20 lakhs from the pay phones holders, which could have otherwise been adjusted against increased security deposit.

On being pointed out by audit, the Management stated (June/July 1996) that additional security would be imposed wherever required and at the instance of Audit, Trans-Yamuna and South Areas have issued demand notes for the additional security but the payment was still awaited. Incidentally, these cases of non-recovery of additional security deposit escaped the notice of the Internal Audit wing of the Management.

The Ministry stated (January 1997) that demand notes for recovery of additional security in all the cases pointed

out by Audit have been issued and payment by the pay phone holders is being watched by the concerned authorities of MTNL. Further, Area officers of MTNL have been asked to fix the responsibility for non-realisation of additional security deposit for PCO holders wherever the negligence of any official is established. Necessary instructions to review the cases at fixed intervals and enforce the provisions of rules on security deposit have also been issued to the concerned authorities of MTNL so that Company's interest is safeguarded in the event of non-payment of outstanding dues by erring PCO holders.

VIDESH SANCHAR NIGAM LIMITED (VSNL)

6.4 Deferment of Euro Issue

A proposal of the Company made in December, 1992 to go in for Euro-issue with the aim of mobilising long-term resources for meeting its plan expenditure, was approved in principle by the Government of India in October 1993, and the Company was asked to initiate action for appointment of Merchant Bankers of repute in India and abroad. Accordingly, State Bank of India Capital Services Bombay(SBI Caps) was appointed (November 1993) as its consultant at a negotiated fee at 0.16 per cent of the issue amount and non-refundable advance of Rs.50 lakhs was paid to SBI Caps in March, 1994.

The Company with the assistance of SBI Caps and on the recommendations of High Power Committee constituted by the Government for the purpose, appointed M/s Salomon Brothers and Kleinwort Benson from December, 1993 as Global Co-ordinators for presentation of Euro-issue, out of the 7 short-listed internationally reputed Merchant Bankers. The Maximum and the minimum price range for the Company's shares quoted by the short-listed firms was Rs.1400-1500 (as quoted

jointly by Salomon Brothers and Kleinwort Benson) and Rs.843-948 respectively per share.

SBI Caps suggested launching of the issue by February/March, 1994 i.e. first quarter of 1994, so as to take advantage of the optimistic mood in the international market for equity offerings and also their interest in the Indian offerings in the wake of liberalisation and economic reforms. The High Power Committee also agreed with the above views of the consultant about the timing of the issue so as to realise foreign exchange to be brought into India well before 31st March, 1994. SBI Caps, the Indian consultant, also recommended that unequivocal commitment may be obtained from the Global Co-ordinators for underwriting/arranging to underwrite the entire 20 million shares at Rs.1400 per share which was the lower end of their quoted price.

The proposal of the Department of Telecommunications (DOT) for fresh issue of 20 million shares of Rs.10 each (Rs.20 crores) through Global Depository Receipts (GDR) was approved in March 1994. This would reduce the Government's share holding in the Company from 85 per cent to 68 per cent. The approval was given with the stipulation that while entering into an agreement/commitment, the Company should reserve its right to withdraw the offer of issue unconditionally and without any damages except reimbursement of actual cost to the Global Co-ordinators within the quotation given for the purpose in case the offered price was less than Rs 1400 per share of face value of Rs 10 each. The approval was conveyed to the Company on 18th March, 1994.

The Company commenced in April 1994 road shows for 3 weeks at major investment centres in Asia, Europe and U.S.A. The global co-ordinators, encouraged by the impressive attraction of the major investors in road shows, were confident that the price range of Rs.1400-1600 was achievable. In fact, a word of caution from Minister of

State (Communications) in April 1994 to examine critically whether the road shows should be discontinued in view of the perception that the VSNL GDR might not be placed at a price of Rs.1400 or above elicited a negative response from the sub-committee of the Board, present in London. It was also mentioned that price range of Rs.1400-1600 was achievable. The Global Co-ordinators were also confident, as of 21 April 1994, of the price being not below the desired range of Rs.1400-1600.

However on May 1, 1994 when the meeting to take a final view on pricing was held, the global co-ordinators held the view that a lower range of Rs.1100-1200 and not Rs.1400-1600 was desirable for "enough demand for the issue to be successfully completed". The three options discussed during this meeting were: (a) place the GDRs at a lower price range of Rs.1000-1200 per share; (b) scale down the issue to about 10 million shares at a range of about Rs.1250 per share; and (c) defer the issue to a future date. The Global Co-ordinators confirmed that by using the first option the issue could be successfully concluded to raise about US $ 700 million. The road show team and officers of SBI Caps after deliberating on the options alongwith Chairman and Member(Finance) of the Telecom Commission did not favour adopting either option (b) or (c) for the reasons that it would be difficult to explain to investors the rationale of scaling down the issue so drastically, besides the Company would lose credibility with the investors. The Sub Committee of the Board comprising Chairman, Director(Development) and Director (Operations) favoured the option (a) viz. to float the share at a price of Rs.1100-1200.

The matter was once again discussed by the members of the Board of VSNL, Chairman and Member(Finance) of DOT, Managing Director, SBI Caps with the Global Co-ordinators who held that sudden fall in the price was an act of market forces and pointed that placement of shares in the range of Rs.1100-1200 would be considered as a very successful issue

paving way for successful placement of the future issue of PSUs. They also stated that they had authority from their respective Chairmen to underwrite the issue in full at Rs.1100.

However, the Minister of State for Communications directed the VSNL vide Fax message dated 2.5.1994 not to proceed with the issue as the proposal to sell the shares at a price less than Rs.1400 was against the decision of March 1994. Accordingly, on 3 May 1994 the Board, considering the above directives, decided to defer the Euro-issue.

In September 1994, a decision was taken to relaunch the Euro issue. Accordingly a Note was sent on 13 October 1994. Now a decision has been taken to relaunch the issue and complete the entire exercise by March 1997.

An audit analysis of this case with a view to find out the reasons for the failure of the Euro-Issue was carried out and its findings are discussed below:-

(i) The decision of the Government to prohibit any off-loading of shares at a price below Rs.1400/- was not in conformity with the decision of March 1994 which, in fact, did not restrict the VSNL Board/Empowered Sub-Committee of the Board on Euro issue, authority to negotiate the best price prevailing at that point of time and clinch the deal. The restrictions imposed by the Fax message of 2 May 1994, therefore, was not in line with the expressed decision taken in March 1994. The embargo not to sell at a price below Rs.1400 contradicts the view that the Minister of State (Communications) himself recorded in August 1994 that the "Global Coordinator failed to judge the market sentiments and their "optimism" of being able to sell shares at Rs.1400/- plus was not based upon ground conditions but on their anxiety to get the mandate in preference to other parties who had quoted realistic and lower figures".

(ii) Both SBI Caps as well as the Global Co-ordinators had emphasised on the timing of the issue. SBI Caps wanted that the issue be launched preferably by February/March 1994 so as to gain from the favourable market conditions prevailing at that time. However, the approval to launch the Euro issue was given on 18 March, 1994. Thus, the time-frame chalked by the Global Coordinator could not be adhered to. Secretary, DOT himself admitted the delay and commented in his note of August 26, 1994 that VSNL and Global Coordinators could not adhere to the time table because the Ministry of Finance delayed the whole process by linking it with the domestic disinvestment of Government equity in VSNL. In his view, this delay, more than anything else, hurt the Euro-issue.

(iii) The Minister of State (Communications) directed the Chairman, Telecom Commission, DOT to fix responsibility for the Euro issue fiasco before granting extension to Global Co-ordinators. In his view, the Global Co-ordinators failed to give VSNL the right insight into the market trends prevailing at the time of road shows and book building exercise. In reply it was stated that in a process, which was so long drawn out and involved and which demanded a lot of interaction among many participating agencies including Government, it was not possible to pinpoint any specific person/persons who might have contributed to the situation. The Minister of State (Communication) however observed that "the whole issue was badly planned and badly executed resulting in adverse publicity and embarrassment to Government of India".

(iv) There was no clear-cut delegation to the Board/Sub Committee of the Board on Euro issue. At each stage, the Board/Empowered Sub Committee had to refer the issues to Minister/Secretary for orders whereas timely decision on the basis of prevailing market conditions was the real need for realistic decision.

(v) Had the company placed the GDRs at a price of Rs.1100

per share, it could have collected Rs. 2200 crores in foreign currency for meeting its long term plan expenditure.

(vi) Apart from the set back to its development plans, the Company has so far incurred an expenditure of Rs.2.88 crores on account of legal/audit fee and domestic consultant fee etc. The Company has to pay Rs.3.10 crores to Global Co-ordinators and an international printing firm.

The Ministry stated (January 1997) that the Committee which proceeded with road shows was not delegated the powers to take decision in case the price of the scrip was below Rs.1400 per share. Further, the decision to defer the issue in May 1994 was brought to the notice of CCEA in August 1994 and no adverse comments were received from the Cabinet Committee. It was also stated that the range of Rs.1400-1600 per share as quoted by the Global Co-ordinator was on the basis of their expectation of market sentiments in February/March 1994. However, that could not be exploited as various procedural formalities related to launching of the issue could not be completed in time. Because of deferment of the euro issue, development plans of the company did not suffer as the required funds, which would be needed from the last financial year of 8th plan would be raised by the Company from their own resources or ECB/loans.

The reply of the Ministry supports the audit contention that the issue could not be launched in time, completion of all formalities took avoidably long time though the proposal for disinvestment was mooted in December 1992; and, the absence of adequate delegation to the Empowered Committee also contributed to the failure of the Euro-issue. It also does not answer the question as to why the best advantage of off-loading the shares even at rates below Rs.1400 but above Rs.1100 per share could not be taken at the appropriate time. It has also led to an infructuous expenditure of Rs.5.98 crores so far.

CHAPTER 7

MINISTRY OF DEFENCE

DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

BHARAT ELECTRONICS LIMITED

7.1.1 Loss in the manufacture of EVM Batteries.

The Company is the only approved source for supply of batteries required for Electronic Voting Machines (EVM). Since the life of the batteries supplied earlier to the Election Commission(EC) had expired (May 1992), anticipating a fresh order from the EC, the Company initiated action (July 1992) for the manufacture of 1.5 lakh batteries in its Pune unit.

As no order was forthcoming instructions were issued (December 1992) to the unit to stop production, by which time the unit had manufactured 24,000 batteries valued at Rs.19.68 lakhs. Subsequently, Ministry of Law, Justice and Company Affairs conveyed (22 September 1993) the sanction of the Government for purchase of 10,500 batteries at Rs.100 each, indicating delivery of the batteries positively before 6 October 1993 to the authorised representative of the EC at New Delhi. On the same date Ministry informed the EC about the placement of order on the Company and requested EC to name the authorised representative to take delivery of the batteries. A copy of this letter was endorsed to the Company. Despite this, the Company approached (24th September 1993) the EC for their confirmation by issue of a purchase order as per the terms and conditions agreed to in the Price Negotiation Committee meeting held on 17th September 1993. Since the Ministry had already placed the purchase order on the Company, reasons for the insistence of the Company for the placement of a purchase order by the EC

were not evident. In terms of the Ministry's sanction, the Company had to obtain only the details and destination of the consignees who would be taking delivery of the batteries. This view is further confirmed by the letter of the Ministry dated 6th October 1993 which wanted confirmation from the Company that the batteries had been delivered to the EC. Even then the Company informed (9th October 1993) the Ministry about the non-placement of a purchase order. Further, on 8th October 1993, the Ministry of Finance exempted supply of these batteries from payment of excise duty. Still, the Company pursued the matter of obtaining a purchase order with the EC. However, no deliveries were made by the Company against this sanction, although stock of batteries was readily available. Subsequently, the Company approached (May 1994), the EC for placement of a fresh order without inviting reference to the sanction of the Government already issued on 22nd September 1993. Against this, the EC stated (July 1994) that they would write to the Company if and when a decision regarding use of EVM was taken by them. Meanwhile, the life of the EVM batteries, being only 3 years, expired in January 1996. Consequently, the Company wrote off (June 1996) an amount of Rs.25.38 lakhs being the value of 23,565 batteries (batteries valued at Rs.19.29 lakhs and raw materials valued at Rs.6.09 lakhs) lying unused. The modvat credit availed of amounting to Rs.6.93 lakhs has also been reversed. The Company stated that 435 batteries were drawn by other Departments/Divisions of the Company for demonstration of EVMs and other analysis.

Thus, the action of the Company to manufacture batteries on the basis of an anticipated order and not pursuing the sanction of the Government of India to its finality resulted in avoidable loss of Rs.32.31 lakhs. Further, the shelf life of the product being normally three years, production should have been started only after receipt of a firm order from the customer, since the lead

time for manufacture of batteries is only 3 months.

The Company stated (January 1997), inter alia, that the batteries were manufactured with reference to an indication by the EC for likely use of EVMs in the by-elections of November 1992 and as the batteries would be required at a short notice, the Company scheduled the procurement of materials and manufacture of batteries in Pune Unit. No evidence of the indication of the EC to use the EVMs was made available to Audit except for an internal noting in the Company's file. Further, the reply of the Company is not acceptable as the Company and the EC in a meeting held in January 1991 agreed to the supply of the batteries within three months from the date of the order.

The matter was referred to the Ministry in December 1996, their reply has not been received (January 1997).

7.1.2 Avoidable loss due to improper production planning and commercial assessment.

The Company estimated (September 1990) a market potential for 1500 numbers of Direct Broadcast Service (DBS) Satellite Receivers at a price of Rs.30,000 each. By the time four prototypes were developed (1991), the market price had dropped to Rs.10,000. Despite the drastic drop in market price, the Company cleared production of 10 receivers in September 1991, 100 receivers in November 1991 and 1000 receivers in February 1992 which was again revised to 10000 nos. in February 1992, by which time the market price had dropped further to Rs.7000 while the estimated production cost was Rs.9,181. The Company went ahead and placed orders (between March and July 1992) for raw materials valued at Rs.243.73 lakhs which was far in excess of the requirement of the market potential of 1500 receivers. Despite the trend of steep reduction in prices, the Company did not undertake a detailed profitability analysis to justify mass production

or review its earlier survey when the prevailing price was Rs.30,000.

During the five years ending 1995-96, the Company manufactured 1487 receivers at a total cost of Rs.106.36 lakhs and sold only 1408 receivers realising Rs.59.08 lakhs, thus incurring a loss of Rs.45 45 lakhs. Seventeen receivers were transferred internally to other Units. The value of 62 receivers in stock was Rs.1.83 lakhs. The Company wrote down the value of work-in-progress by Rs.48.81 lakhs in 1992-93 and an inventory valued at Rs.141.38 lakhs was also written off during 1995-96 as the material had become obsolete. Thus, the total loss incurred by the Company in the production of receivers worked out to Rs.235.64 lakhs. Apart from the loss, the Company was carrying (October 1996) an inventory of raw materials and components worth Rs.18.00 lakhs and it was stated that the items would be put up for write off during 1996-97 if they were found unusable.

When the market potential for the receivers was assessed at only 1500 nos. the action of the Company in procuring raw materials much in excess of requirement and not making a profitability analysis before taking up mass production led to a loss of Rs.235.64 lakhs. The improper production planning of 10000 receivers in February 1992 as against the demand of only 1500 receivers was the main reason for the loss.

The Ministry stated (November 1995) inter alia that even though all necessary care was taken in launching the product, which at that time was a profitable proposition, the imports at a cheaper rate due to the liberalisation policy of Government and the preference of users for cheap and non-quality receivers, which could not be anticipated at the time of launching the product, were the reasons for the project not becoming a success. The Ministry also stated that the spirit of the audit observation had been noted and accordingly the Company was instructed to make a clear and

fresh assessment of the market mandatory, before going in for mass production in future.

The reply of the Ministry is not acceptable because of the fact that substantial loss had been incurred on account of procurement of raw material in excess of requirement despite steep fall in price of the receivers which the Company was aware of.

CHAPTER 8

MINISTRY OF CHEMICALS & FERTILIZERS
(DEPARTMENT OF FERTILIZERS)

FERTILISERS AND CHEMICALS TRAVANCORE LIMITED (FACT)

8.1.1. Avoidable extra expenditure due to delay in procurement.

FACT constituted a technical committee for ascertaining the cause of premature failure of Primary Reformer Tubes in its Ammonia plant (April 1992). The committee found that of the total 192 tubes as many as 31 tubes (valuing Rs.90 lakhs approx.) failed between December 1991 and May 1992, and 52 in all were in dead condition because of indigenous material (HK-40) used in the tubes which had severe limitations on their strength at elevated temperatures, and recommended replacement with tubes of improved metallurgy (25/35 Nb grade). The Company initiated action for importing new generation tubes in June 1992. Purchase recommendation for a quantity of 110 units in favour of a firm (L1) was firmed up by tender committee on 17 May 1994 at DMs 5280 and DMs 320 for tubes and grids respectively, for which rates and offers were valid upto 27 May 1994. At this advanced stage of tendering, Board of Directors in their meeting held on 14 May 1994 felt that a better technical proposition was to change all the 192 tubes at a time instead of 110 units first and the rest later. With this the validity period of the offer lapsed.

The shortlisted vendors were asked to quote for 200 units of the same specification on 14 June 1994 again, which were opened on 1 July 1994. The same firm (L1) continued to retain their position but with a total increase of DMs 950 per unit. The supply order for 200 units was placed in July 1994 involving a cost increase of Rs.56.89 lakhs out of which avoidable excess expenditure was to the tune of

Rs.40.59 lakhs (including foreign exchange element of DM 106150) on 110 tubes which could have been purchased at rates offered earlier. The Ministry confirmed (February 1997) the observation of audit but contended that the Management believed that the vendors would give a reduction in rates due to increased supply. The reply is not acceptable as the assumption of the Company was not supported by any recorded evidence or rationale for the same.

8.1.2 Injudicious purchase for an abandoned Project

FACT cleared a proposal in October 1990 to instal a standby Waste Heat Recovery System at a cost of Rs.100 lakhs at its Petrochemical Division for supply of Sulphur Dioxide gas to obviate frequent failures in operations. In the meantime extensive repairs to the existing system itself stabilised the plant to the satisfaction of the plant authorities who recommended abandoning the project of standby system in September 1992 after watching the performance of the existing plant after repairs for 18 months. On the other hand, the Company had placed orders valuing at Rs.16.62 lakhs for dampers and other instruments (April 1992) for standby system which were received in November 1992, resulting in infructuous purchase and blockage of funds.

Management in its reply (September 1996) contended that so far 2 dampers valuing Rs.4.96 lakhs have been put to use elsewhere in the plant in April 1995 and March 1996, respectively, and possibility of using the balance material worth Rs.11.66 lakhs was being explored.

The Ministry stated (January 1997) that the purchase was made by the Company to minimise the delay in project completion.

The reply of the Ministry is not tenable as the dampers

which were relatively short delivery items were purchased even before the finalisation of technical parameters for the main equipment resulting in blocking up of funds on the abandoned project.

8.1.3 Infructuous expenditure on Soda Ash Handling System

A Soda Ash Conveying and Handling System for handling and bagging soda ash at a cost of Rs.28.15 lakhs was commissioned in September, 1990 by FACT, as part of its Caprolactam plant. The system failed within 24 hours of commissioning due to high temperature characteristics of the product, not considered by the consultants. The system was repaired in October 1990 but again failed within 3 days of operation. The system has not been in use since then and alternate arrangements had to be made at an extra cost of Rs.5 lakhs for receiving soda ash in bulk form for which market was found.

The Company decided (February 1995) to scrap the conveyor system and declared the equipment redundant as it was lying idle. The scrapped equipment (excepting machinery valued at Rs.3.93 lakhs) were sold for Rs.1.87 lakhs resulting in an expenditure of Rs.22.35 lakhs being rendered infructuous.

The Company absolved the equipment supplier of any responsibility for the problems encountered on the ground that the concerned designs were provided by the Japanese consultants for the Caprolactam project. In its reply, the Ministry pointed out that the consultants were apparently unaware of the characteristics of high temperature and irregular nature of scda ash while designing the system. The Company could not proceed against the consultants due to expiry of performance guarantee period. Evidently the Company had not only entrusted the design of the system to consultants without ascertaining their capability in this

area but also had failed to protect its interests vis-a-vis the consultants.

FERTILIZERS CORPORATION OF INDIA LIMITED

8.2 Avoidable payment Of Customs Duty

In exercise of the power conferred by Section 25 of the Customs Act, 1962, the Central Government vide Notification dated 23 September, 1992 had exempted customs duty on materials required for renovation or modernisation of a Fertilizer plant. As per the notification, the Company was to submit a certificate from an officer not below the rank of a Deputy Secretary in the Department of Fertilizers that the said renovation/modernisation scheme has been granted techno-economic clearance by the Ministry of Chemicals & Fertilizers alongwith another certificate that the imported goods shall be required for the purpose specified above from an officer not below the rank of Additional Industrial Advisor in the Directorate General of Technical Development (DGTD).

In respect of renovation/modernisation scheme of Sindri Unit of the Company, the Management took delivery (November 1993 to September 1994) of six consignments after paying normal duty without obtaining the requisite certificates from the Ministry although the material had arrived between April 1993 and February 1994. The Management approached the Ministry for the certificates initially in June 1994 and finally in February 1995. The Ministry furnished the same in March 1995 when the stipulated period of six months for claiming the refund of duty in respect of five consignments expired. On receipt of the certificates, the Company lodged refund claim (23rd March 1995) through their clearing agent for one case amounting to Rs.5.62 lakhs. The Customs Authority, however, rejected the claim (July 1995) as the

valid certificate of the DGTD was not produced alongwith the claim. The matter was not pursued further. The refund claim (Rs.14.79 lakhs) in respect of other five cases was not lodged as the same had become time-barred.

The Management stated (May 1996) that certificates were not signed by the authorities of DGTD as the same were not in existence on the date of obtaining exemption certificates. It was also stated that, in fact, the Company did not suffer any loss as, by utilising the materials in time, the advantage gained in maintaining continuity of production was much higher than the expenditure incurred by way of payment of custom duty. The Management's reply is not acceptable as timely action on this account could have saved the Company the liability on customs duty of Rs.20.41 lakhs in addition to maintaining continuity of production.

The matter was referred to the Ministry in July 1996; their reply has not been received (January 1997).

HINDUSTAN FERTILIZER CORPORATION LIMITED

8.3 Unproductive investment on Sulphuric Acid Plant.

The Sulphuric Acid Plant (SAP) of Namrup unit was commissioned in 1969 with two streams each with 125 MT. per day capacity. In order to increase the productivity of the plant and to reduce the emission levels as pollution control measures, it was decided by the Management (April 1984) to change the existing Single Conversion Single Absorption (SCSA) system of the plant to Double Conversion Double Absorption (DCDA) system with one stream of 140 MT per day capacity and also to replace worn out equipment in order to match the DCDA conversion. Total approved cost of the job was Rs.150 lakhs for which a private company was appointed (July 1985) as technical consultant. As the progress of the work was unsatisfactory, the amended work order was issued

to the consultant only in November 1990 with a completion schedule of 24 months. Major work orders were also issued (January 1991 to April 1991) to other firms for various supply, civil, erection jobs, etc. The renovation of Sulphuric Acid Plant with DCDA was completed in March 1992 at a total cost of Rs.2.26 crores.

The Sulphuric Acid Plant remained idle since its renovation due to shut down of the Ammonium Sulphuric Plant (ASP) in June 1992 for extensive renovation of machinery and civil structural works. No renovation work for ASP, which was also commissioned in 1969 has, however, been taken up so far. Consequently, the Sulphuric Acid plant was in partial operation occasionally depending on demand of the DM water plants and during the last four years (1992-93 to 1995-96) the capacity utilization of the plant was only to the extent of 1.19 per cent to 4.13 per cent.

The Management stated (August 1995) that the work of renovation of ASP could not be taken up due to paucity of funds and after approval of the revival package, the Company would be able to generate its own funds which would be utilised for the renovation of ASP.

The Ministry while endorsing the views of the management, stated (September 1995) that when the proposal for conversion from Single Conversion Single Absorption System to Double Conversion Double Absorption System (DCDA) for Sulphuric Acid Plant was approved, the ASP was not in damaged condition and it was envisaged that SAP, after implementation of DCDA system, would be utilised by ASP. The fact, however, remains that during implementation of the DCDA system (1991), it was noticed that ASP was in damaged condition and therefore, an immediate decision to renovate the ASP should have been considered.

As both the Plants were inter-related for manufacture of ammonium sulphate, renovation of both the plants should have been taken up together, when the Management noticed

(January 1991) that the ASP was in damaged condition. Constraints of funds cannot lead the Company to renovate one and ignore the other when the product of SAP will have to be used in ASP. Even in revamping measures, which were considered by the Government at an investment of Rs.464.93 crores, the renovation of ASP was not considered.

Thus, renovation of the Sulphuric Acid Plant without studying the prospect of utilisation of Sulphuric Acid in the ASP, which was the main consuming plant of Sulphuric Acid, resulted in unproductive investment of Rs.2.26 crores.

NATIONAL FERTILIZERS LIMITED

8.4.1 Irregularities in import of urea

1. Introduction

Import of urea is contingent upon shortfall in its availability within the country after taking into account the anticipated demand during the two cropping seasons in the year viz., Rabi (November - March) and Kharif (July-October), the desirable level of closing stocks at the end of the year (pipeline supplies), the existing stock and the expected production by domestic production units. For about last 20 years i.e. since 1975, the import of urea has been canalized through the MMTC Ltd. The actual quantity of urea imported by it has been based on the authorisation limits determined by the Department of Fertilizers which, along with the Ministry of Agriculture and Cooperation, maintains a close watch on the supply-demand position of different fertilizers and their distribution to farmers throughout the country. This is achieved through an inter-ministerial Steering Committee on which the Ministry of Commerce and the MMTC are also represented. The supply management of urea, besides being monitored informally by various inter and intra-ministerial groups at different levels, is also

reviewed periodically by the Committee of Secretaries headed by the Cabinet Secretary.

2. Supply - demand projections

As a consequence of decontrol of fertilizers like DAP/MOP during August 1992 there was a change in the consumption pattern of urea. As a corollary to this, the consumption of decontrolled fertilizers kept falling upto Kharif 1993-94. This is evident from the table given below:

(In Lakh Metric tonnes)

Period	UREA		DAP		MOP	
Year/ Season	Sales	Percentage variation with reference to previous season/year	Sales	Percentage variation with reference to previous season/year	Sales	Percentage variation with reference to previous season/year
1991-92						
Kharif	65.60	4.76	18.73	13.10	11.73	9.83
Rabi	75.47	0.59	26.45	3.28	11.59	4.32
Total	**141.07**	**2.48**	**45.18**	**7.14**	**23.32**	**7.02**
1992-93						
Kharif	65.19	-0.62	18.56	-0.91	9.88	-15.77
Rabi	83.39	10.49	20.49	-22.53	5.16	-55.48
Total	**148.58**	**5.32**	**39.05**	**-13.57**	**15.04**	**-35.51**
1993-94						
Kharif	72.96	11.92	13.52	-27.16	6.68	-32.39
Rabi	85.02	1.95	23.81	16.20	9.02	74.81
Total	**157.98**	**6.33**	**37.33**	**-4.40**	**15.70**	**4.39**
1994-95						
Khari	77.86	6.72	18.46	36.54	7.05	5.54
Rabi*	90.50	6.45	20.00	-16.00	10.00	10.86
Total	**168.36**	**6.57**	**38.46**	**3.03**	**17.05**	**8.60**

*estimated

Source: Department of Fertlizers

Based on the trend of consumption as indicated above the Department of Fertilizers, in February 1994, projected

an over-all growth of 6% in the consumption of urea during 1994-95. Accordingly, the demand for urea during 1994-95 was estimated at 172.60 LMT as against domestic production of 140 LMT. This would necessitate import of 37.63 LMT during the year(see table below): Of this MMTC was initially authorized (February 1994) to import 20 LMT. The position was reviewed by the Minister of State for Chemicals and Fertilizer on 7 April 1994. Thereafter it was decided that in view of comfortable position of stocks and upswing in the domestic production MMTC could continue its efforts for securing supplies at realistic prices even as price of urea in the international market was rising. This was to be achieved by resorting to a judicious mix of long term as well as spot purchase contracts with the sellers in the Gulf and by tapping non traditional sources like Bangladesh. Arrivals of urea in the first quarter of 1994-95 were sub-normal owing to difficulties reported by the MMTC in contracting supplies at favourable prices and scheduled quantum of arrival of urea for the months of April and May was brought down from 6 to 4 LMT. Despite slow arrivals of urea the Government did not seriously doubt the ability of MMTC to meet the overall target of delivering 15 LMT urea by the end of September 1994 i.e. before the onset of Rabi season. This perception, also spurred by lowering of projected demand in June 1994, continued beyond the month of August 1994 eventhough, between April - August 1994 MMTC had imported only 4.68 LMT of urea as against a target of 10.50 LMT. The situation became more optimistic in September 1994 inasmuch as arrival of 4.32 LMT of urea was expected in that month. But, by the 3rd-4th week of September 1994 the perception of the Government in relation to supply - demand

situation became pessimistic as can be seen from the table given below:

(In Lakh Metric Tonnes)

	February 1994	June 1994	September 1994
Demand	172.60	167.50	167.50
Closing stock	17.58	16.76	15.47
Gross Demand	**190.18**	**184.26**	**182.97**
Opening stock	12.55	14.51	13.47
Domestic Production	140.00	142.00	136.50
Import	37.63	27.75	33.00
Total Supply	**190.18**	**184.26**	**182.97**

The Department of Fertilizers in their reply (May 1997) stated that since fertilizer application has pronounced seasonality and the factors which determine the import requirement are in a continuous state of flux due to variety of reasons, the assessment made in January/February is tentative for the year and is adjusted as the season progresses. The import requirement for Rabi season is thus reassessed and fine-tuned taking into account evaluation of demand in Kharif season and the progress of Monsoon. But, reassessment of demand could be made also at any other time of the year, depending upon the exigencies of demand for imported Urea which may arise on account of any sudden and unforeseen change in the estimates for production.

While sudden developments can force a mid course review of import requirement, the fact remains that the situation as it had evolved upto the end of September 1994 was not the result of any sudden development. As evoluation of the supply-demand situation was being kept under constant watch by the Government and as the constraints on domestic production were generally known the corrective steps that were applied to arrest its shortfall in November-December 1994, by infusion of more funds into HFC / IFC could well have been taken in September 1994.

3. Injudicious involvement of fertilizer companies in import of urea

Keeping in view the above change of perception and its apprehension that MMTC may not be able to procure the required quantity of urea in time, Joint Secretary(A&M) representing the Ministry of Chemicals and Fertilizers in the Steering Committee Meeting held on 26 September 1994 suggested that some more agencies should be involved in the import of urea so as to boost the efforts of MMTC and to thus augment arrival of imported urea during the critical months of October and November 1994. The suggestion was endorsed by the Committee. Consequently, on 20 October 1994, the Minister (C&F) decided to designate NFL and PPCL as co-canalizing agencies for effecting import of urea. Both the Companies were authorised to import during 1994-95 limited quantities of urea [National Fertilizers Ltd.(NFL) :2 LMT and Pyrites Phosphates & Chemicals Ltd.(PPCL):1 LMT]. To ensure that imports by NFL/PPCL did not impinge upon the potential supplies through MMTC Government imposed two conditions: that traditional sources of MMTC are not tapped and that imports should be effected at prices lower than that of MMTC. In taking this decision the Government overlooked two distinct handicaps : firstly, neither of the two co-canalising companies had any experience in the field of international fertilizer trade or even sufficient knowledge of potential sources of supply as latter events proved; and secondly, given the modest quantities these companies were authorized to import their ability to bargain a price lower than that of MMTC in a market that had already started hardening or to tap altogether new sources of supply, was in serious doubt. Also, the fact that another fertilizer PSU (Madras Fertilizer Ltd.), authorized in August 1994, to import 2 LMT of urea had already failed in arranging supplies was glossed over on the plea that being new in the field of trade, fertilizer PSUs were bound to face difficulties. Though the impossibility of NFL being

able to arrange supplies well in time for the Rabi season of 1994-95, was obvious keeping in view the lead time required for contracting supplies and arranging their delivery at the farm gates, this factor was not considered while taking the decision. The fact that both the companies failed to secure any supplies during the year 1994-95 and that ultimately the import of the entire quantity required to meet the shortfall (28.70 LMT) was effected by MMTC also establishes the inappropriateness of this decision. Further, the fact that actual off-take of urea and production level of domestic units actually conformed to the estimates made in the beginning (February 1994) and not the revised estimates made in September 1994, would indicate that the latter estimate was not realistic.

Overlooking their failure to import any urea, whatsoever, during the latter half of 1994-95 and MMTC's assertion that it anticipated no difficulty in importing 33 LMT of urea needed to meet the full requirement of urea during 1995-96 the Minister (C&F) decided on 28 March 1995 to maintain status quo in allowing NFL/PPCL to import urea and to give all co-canalising agencies an 'equal opportunity' to source their supplies. The Minister's decision came, incidentally, soon after the Department of Fertilizers, on 16 March 1995, confirmed the appointment of the then Managing Director who, uptill then, was functioning only on an ad-hoc basis. The decision meant that earlier stipulations of tying imports by fertilizer PSUs to non-MMTC sources and MMTC prices would no longer hold good. The Committee of Secretaries which held a meeting, two days later i.e. on 30 March 1995, also made similar recommendations.

In their reply (May 1997), the Department stated as under:

-Constraints of MMTC as the sole canalising agency for procurement of higher quantities of urea on Government account and the likely import of low arrivals on overall availability of urea became a cause for major concern and

had the potential of escalating into a law and order problem in the States;

-the decision to involve fertilizer companies in the public sector in the import of urea was necessary to ameliorate availability of urea in the peak consumption months of Rabi (November-December) and keeping in view the fact that there were no other agencies with past experience and proven track record;

-Committee of Secretaries had, after due deliberations and after weighing advantages and disadvantages, decided in favour of introducing and continuing with multi-agency system for imports, keeping in view the best and long term interest of the Country and also to avoid pangs of anxiety that could arise due to error of judgement of a single agency;

-experience in years after 1994-96 had indicated that multi agency system has worked well and has proved to be advantegeous over the previous arrangement of procuring supplies through a single agency;

-poor performance of NFL/PPCL and the procedural default on the part of an individual importing agency cannot bring into question the raison d'etre of the policy change; and

-the sequence of events did not suggest any correlation between the Minister (C&F)'s opinion (expressed on 28 March 1995) and the approval of the Committee of Secretaries (given on 30 March 1995).

The reply is not convincing because:

-MMTC's constraints were known to the Government from April 1994 itself and its approach in delaying contracts had been endorsed by the Department of Fertilizer; yet no serious apprehension of law and order problems was brought up in various meetings convened to review the position between April and mid September 1994;

-the fact remains that decision to involve fertilizer PSUs in import of urea was a reaction to a perceived crisis and not a well planned decision which could have been taken in February 1994;

-since import of urea in particular and supply situation in general is continuously monitored by the Government of India at all the levels, the argument that "error of judgement by a single procurement agency could lead to pangs of anxiety" does not hold force; and

-the opinion expressed by Minister (C & F) in regard to continuance of NFL/PPCL as an canalising agency for urea had the force of an order and that this opinion was expressed two days before the Committee of Secretaries gave its recommendation, is a matter of factual record.

4. Poor import performance during 1995-96

In April 1995, the Department of Fertilizers proposed to authorise NFL to import a quantity of 5 LMT which included 2 LMT to be imported during Kharif season. The allocation was subject to a review and mid-course correction as the Secretary, Fertilizer had opined that keeping in view the grave implications of depending too heavily on a new and inexperienced co-canalising agency a cautious approach was needed. Authorisation limit went up by August 1995, to 5 LMT.

Between May and October 1995, efforts made by NFL to secure import of urea did not prove to be encouraging. Three orders placed through M/s Sai Krishna Impex, a Hyderabad based private firm, between May and September 1995 on various foreign suppliers for importing an aggregate quantity of 3 LMT did not materialise into actual deliveries.

Similarly, a contract entered into with M/s Karsan Limited, an Ankara (Turkey)-based firm, on 27 July 1995 for supply of 2 LMT urea did not fructify as the firm did not supply the consignment. In view of its continued poor performance in importing urea the authorisation of NFL for import was brought down from 5 LMT to 3 LMT for 1995-96 against which only 0.55 LMT was imported by September 1995.

5. Procurement of urea from a firm of uncertain credentials in violation of standard norms of prudence

The standard conditions of contracting supplies of urea from international market, as were approved by the Board on 7 November 1994 envisaged that urea should be procured on the basis of open tenders and payment effected through a letter of credit operatable on proof of despatch of the supplies. Further, the Committee of Secretaries in its meeting held on 30 March 1995 directed the Department of Fertilizers to evolve an uniform purchase procedure for all

the canalising agencies and to issue guidelines on the subject. According to the consequential guidelines issued by the Department of Fertilizers on 18 April 1995 and the uniform procedure devised thereunder by NFL on behalf of all other agencies, the contracts with suppliers would stipulate that:

(i) letters of credit(L/C) shall be established after receipt of a performance guarantee bond equivalent to 2 per cent of the value of supplies within 15 days of issue of letter of intent;

(ii) letters of credit shall be payable for 100 per cent of net invoice value after receipt of copies of negotiated Bills of Lading;

(iii) all contracts for import of fertilizers would be on FOB basis;

(iv) the supplier would be required to deposit earnest money at the rate of US $ one per tonne at the time of offer;

(v) exemption from conditions like deposit of earnest money, proof of stock and performance guarantee bond could be given only if actual producers were supplying urea.

As the Company was effecting purchase of urea on behalf of the Government of India for which prior budget allocation had not been made by the Board of Directors, purchase of urea could not be made without its specific approval. Therefore, every individual purchase proposal was being put up for Board's approval. However, in a meeting of the Board of Directors held on 18 September 1995, the Managing Director, at his own initiative and without prior notice or circulation of agenda papers, obtained from the Board of Directors powers to approve contracts for purchase of urea in an expeditious manner as per the 'prescribed procedure'. But keeping aside all the aforestated ground rules, norms of prudence and in clear abuse of powers delegated to him, the Managing Director on 1 November 1995 approved import of 2 LMT urea @ US $ 190 per MT from M/s Karsan, Ankara on the basis of an unsolicited offer received on 30 October 1995 from M/S Sai Krishna Impex Limited, Hyderabad, a firm which had failed to effect deliveries against three consecutive

orders placed on it between May and September 1995. The placement of order involving a transaction of US $ 38 million was decided within the next two days, evidently, in undue haste, on a firm of unknown credentials. Subsequent investigations in the matter by the Government indicated that the firm was little known to the Turkish Government as well as to the Chamber of Commerce of that country. Fertilizer trade circles of Turkey were also totally unfamiliar with the firm. In the Board meeting held on 27 March 1996, the Managing Director, NFL admitted that no enquiries regarding the credentials of M/s Karsan had been made and that he had relied entirely on an oral opinion given by the erstwhile Executive Director (Marketing).

The contract which was signed on 9 November 1995 provided that two shipments (2x25,000 tonnes) would be supplied immediately and the entire quantity was to be delivered within 5 months of payment of 100 percent value of the contracted supplies. Though the advance payment of US $ 38 million representing the entire order value was remitted to the foreign suppliers' bank on 2 and 14 November 1995, no delivery was made thereagainst. The contract was finally cancelled on 6 October 1996. The money has remained unrecovered so far (March 1997).

6. Infirmities in execution and implementation of the contract

An audit scrutiny of the contract revealed the following infirmities in its execution and the implementation.

i) Though it is normal commercial practice to open a letter of credit in respect of imports the contract provided for 100 per cent advance payment of the total value. This was in contrast with the corresponding provisions in the earlier contract of July 1995 with the same supplier which provided that payment of total contract value (US $ 38 million) would be payable by placing the sum in a "Special

Account" at buyer's bank to be released to Seller's order at the end of the transaction. The delivery of urea under that contract was subject only to confirmation of the amount having been placed by the NFL in the "Special Account"with their own bankers.

(ii) Instead of obtaining US $ 0.02 million towards earnest money deposit and receiving the performance guarantee bond of US $ 0.76 million in accordance with the directions of the Department of Fertilisers, the Company, on 14 November 1995, paid unsecured advance of US $ 37.62 million (Rs.130.69 crores), representing 99 percent of the total order value to the supplier. Further, an amount of US $ 0.38 million representing insurance premium at the rate of 1 per cent of the contract value was remitted to the supplier on 2 November 1995 i.e even before the contract was executed on 9 November 1995. The amount was, however, received back at State Bank of India, New York on 20 November 1995 due to non receipt of proper instructions and remained ultimately unpaid. In addition, the Company spent Rs.0.33 crore on account of bank charges.

(iii) Contrary to the provisions of Exchange Control Manual (Chapter 7 para 7A.10) which state that if the amount of advance remittance exceeds US$ 5000, guarantee from an international bank of repute situated outside India should be obtained, Article 9 of the contract provided that the seller was to counter-guarantee the advance payment by a first class Lloyds Insurance Policy to cover the seller's risk of non-delivery and non-performance. However, the document actually furnished by the seller was a 'Marine Policy' which stated that the policy obtained is an "all risk marine policy, including non delivery and war risks". Hence it covered only non delivery of supplies after loading/identification of ships. Manifest deviation of the text of the cover note from Article 9 of the contract was overlooked before releasing the advance payment.

iv) Liquidated damage clause is incorporated in the contract normally to protect the interest of the buyer. But in this contract, a clause to this effect, added at a stage subsequent to the execution of the contract, was skewed positively in favour of the seller. Whereas the company was availing cash credit facility @ 18.25 per cent per annum, the clause provides that the buyer could claim from the seller damages @ 1/2 per cent per week or part thereof, subject to a maximum of 10 per cent of the cost of material remaining undelivered on the expiry of the contractual delivery period. Moreover, NFL'S claim for the LD would have arisen only if it chose to accept delivery of the material beyond the normal contractual period.

v) Article 13 of the contract incorporated a 'force majeure' clause according to which neither of the two contracting parties would be responsible for breach of contract caused by the circumstances which, interalia, included inconvenient weather conditions and local government decisions. Incorporation of the expression "inconvenient weather conditions" was significant in view of the fact that the contract was signed on 9 November, 1995 when winter had already set in Northern Europe and the CIS countries from where the urea was expected to be sourced by the supplier. Apart from being vague and all encompassing the wording of this clause was not in the interest of NFL. This became evident when M/s Karsan in their letter dated 28 February 1996 stated that they were unable to supply urea because of severe weather conditions which had affected loading operations at the ports.

7. The role of Board of Directors

The involvement of NFL in import of urea began from October/November 1994. Though the Board in its meeting held on 7 November 1994 had approved the procedure for import of urea and the subject matter of urea imports had been coming

up for discussion at the Board level intermittently thereafter, the agenda papers for the Board do not give any evidence of the Company's poor performance in this area having been subject to in-depth analysis; nor did the Board give any emphatic direction to the management for achieving expected results. The decision of the Board in September 1995 to delegate full responsibility for approval of purchases of urea to the Managing Director vaguely mentioned that the delegation of powers to the Managing Director would be subject to prescribed procedures. It did not specifically refer either to the guidelines issued by the Department of Fertilisers in April 1995 prescribing uniform procedure for purchase of urea or the procedure approved by the Board itself in November 1994 which would have been appropriate given the fact that the Articles of Association of the Company as well as its Purchase Manual were silent on the subject of import of urea by the Company as a co-canalising agency. The Board also did not oblige the Managing Director to report immediately in regard to purchases approved by him. To that extent the Board had delegated its powers in a defective manner giving unfettered powers to the Managing Director.

The fact that an order placed by the Company with M/s Karsan in July 1995 had not fructified was not reported to the Board even when only it had full powers to approve such purchases. This indicated the Board's poor control over the management and was confirmed by the manner in which the then Managing Director approved the second contract with M/s Karsan in violation of all norms of propriety and in abuse of powers delegated to him and the fact that such an unusual deal was not reported to the Board till 4 January 1996.

Even when the contract was brought to the notice of the Board on 4 January 1996, the Board merely noted the information but did not seek any clarifications as to the circumstances in which supply of urea had been contracted at unusual terms and why there existed no surety with the

Company to enforce the contract, in the event of default, or to recover the amount already advanced.

Similarly the Government, had the first opportunity to become aware of violation of its own guideline of April 1995 on 4 January 1996 when the Board at which it was represented by a Joint Secretary of the Department of Fertilizers was informed of the contractual terms with M/s Karsan. Yet the Department did not seek any clarification from the Company at that stage. Even earlier when the Board delegated its powers to the Managing Director, Government's representative on the Board had not specifically insisted on adherence to Government's directive of 18 April 1995. Similarly, when on 10 January 1996 the Department was formally informed of advance payment of US $ 38 million to M/s Karsan and permission was sought for treating interest cost related thereto as part of the cost, no questions were raised by the Ministry. Its directive to the Company on 12 February 1996 advising it to contract supplies from M/s Karsan only with the supplier's credit was an exercise in futility because the Company had already informed the Department about the advance payment having been made to the supplier.

The matter was referred to the Management and the Department of Fertilizers in October/November 1996, respectively.

In reply, the Department stated (January-May 1997) that both the Board of Directors of NFL and the Department of Fertilisers had been providing guidance and direction to the PSU whenever required and never relented in pointing out the lapses on the part of the management. It argued that delegation of powers made to the Managing Director was limited (being subject to mandatory procedures prescribed by the Department of Fertilizers) and not unfettered and that the MD had exceeded his powers while approving the contract with M/s Karsan Ltd. It further stated that unequivocal stand taken by Managing Director of National Fertilizers

Limited throughout, that the Lloyds insurance policy covered the Company's advance payment completely against all risks had not given it any reasons to doubt the deal. Full facts about the deal such as credentials of the party, verification of extent of coverage provided by the Lloyds Policy etc. were very assiduously kept back from the Board as well as the Government and that it had been presumed that the contract was executed with due care and security of funds. Despite the fact that Government had asked for details after it had become sceptical about the deal, no details were supplied. As regards action not being taken soon after the Board was informed of the contract on 4 January 1996 the Department stated that since the payment of advance to M/S Karsan was not a substantive item of the agenda no further discussion took place on this subject. The Department also stated that the Government had given sufficient opportunity to the Management so that the Company's commercial interest were not jeopardised and the matter was referred immediately to CBI after NFL failed in its attempts to obtain supply of urea and an assessment as given by Director (Vigilance) of the Department of Fertilizers from Ankara that the party was not going to perform.

The reply, however, fails to explain as to why in the Minutes of the Board meeting of 18 September 1995, a reference to Department's own mandatory procedure and other conditions were not specifically mentioned and thus does not mitigate the fact that virtually unfettered powers were given to the Managing Director to approve contracts for import of urea vide item No.26 of the Board Meeting held on 18 September 1995 at which the Government was duly represented by its nominee. Besides, if the intention of the Board was to delegate powers to the Managing Director for importing only through Letters of credit and not to make any advance payment, it is not clear why no action was taken against him or any other executives responsible for the

transaction after full facts of the case came before the Board in its meeting held on 4 January 1996.

To sum up, in the case of import of urea the following shortcomings have been noticed in audit:

(a) The Government sought the involvement of PSUs producing fertilizer in import of urea without adequate justification and continued with the arrangement despite poor performance by those companies.

(b) National Fertilizers Limited, which had a major role in this arrangement, entered into a contract with a supplier of uncertain credentials through an Indian agent of proven incompetance for the supply of 2 LMTs of urea, in undue haste.

(c) The contract was irregular as no open tenders were called for and prescribed procedures were not followed.

(d) Various provisions of the contract relating to force majeure, liquidated damages, etc did not protect the interest of NFL in situations like delayed arrival of cargo or non-performance by the supplier.

(e) Advance payment to the supplier without any security, while not facilitating supply, compromised NFL financially.

(f) The Board of Directors had failed to exercise due control over the Management as well as in giving it emphatic direction at critical moments.

(g) The Department which closely monitors the demand-supply position of urea and its import also did not question the propriety of the transaction at the earliest opportunity.

The deal with M/S Karsan has resulted in a loss of Rs.131.02 crores.

8.4.2 Loss due to non-encashment of Bank Guarantee

The Company, acting through two Indian agents, placed two orders on 6 July 1995 with a foreign supplier for supply of urea, each for a quantity of 50000 MT. On 22 July 1995, the Company, however, changed the name of the supplier without any formal request of the Agents.

As per the guidelines prescribed by the Department of Fertilizers for import of fertilizer (adopted by NFL), the supplier is required to furnish a Performance Guarantee Bond (PGB) equivalent to 2 per cent of the cost of supplies. Accordingly, the new supplier, in August 1995, furnished to the Company two Performance Guarantee Bonds (PGBs) aggregating US $ 301000. Contrary to the agreed schedule of delivery, the supplies failed to reach the designated Indian port during the month of August/September 1995. On 1 November 1995 the Company accepted supplier's request to modify the contracted price for supply of fertilizer from US $ 150/151 per MT (FOB) to US $ 195 per MT (CIF) and extended the time for performance of the contract. The supplier did not ship the material even by the extended date of delivery viz., 15 November 1995 and 31 December 1995. Its request for further extension of time was turned down by the Company. But, instead of encashing the PGBs for failure on the supplier's part to adhere to the terms and conditions of the purchase orders, the Management released both the bonds in January 1996 on the plea that this was being done to avoid legal complications. No legal advice had, however, been obtained in the matter.

Moreover, while the Company had increased the value of letter of credit in accordance with the modified price of fertilizer, the value of PGBs was not correspondingly increased.

The Company, apart from failing to secure supply of urea, has foregone a revenue of Rs.90.30 lakhs (US $ 301000) which could have been legitimately recovered

from a defaulting supplier.

While admitting the facts, the Ministry stated (January 1997) that the case has since been referred by the Government to the CBI for investigation.

8.4.3 Irregular payment to an agent

The Marketing Division of the Company is headed by an Executive Director and comprising Regional Managers, Area Managers and field officers of various levels who keep liaison with consumers, dealers, state authorities etc. for marketing fertilizers. Despite this extensive set up the Company, in September 1993, acting at the behest of Private Secretary to the Minister of State (Chemicals and Fertilizers), appointed a firm of Delhi as its Handling-cum-General Services Contractor in the states of Punjab and Haryana for a period of five years from October 1993 to September 1998. The firm was expected to market Company's products to institutional customers like Punjab Markfed, Haryana Agro Industries Federation, Punjab Agro Industries Corporation , Haryana Agro Industries Corporation etc.

The contract, apart from being exceptional, was awarded in violation of all established procedures i.e. without calling for tenders, without deposit of earnest money etc. and without the approval of the competent authority. Though the various tasks to be performed by the firm under the contract were actually performed by the Company itself, the contractor was paid in June 1994 an ad-hoc advance of Rs.30 lakhs against bills submitted for the period from October 1993 to May 1994 which, incidentally, were not recommended for payment even by the concerned Regional Office.

The Management stated (September 1996) that as the contractor virtually did not render any services, the Contract was terminated in August 1996.

The fact, however, remains that the Company had made an

irregular payment of Rs.30 lakhs and its request for refund of the amount has gone unresponded to by the contractor.

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

PYRITES PHOSPHATES & CHEMICALS LIMITED

8.5 Misappropriation of fertilizer by a warehousing agent

The Company appointed a firm of Burdwan as warehousing agent for storing, handling and transportation of fertilizers to be marketed by the Company in the district of Burdwan in West Bengal. An agreement to this effect was entered into on 14 July 1990. The agreement was valid upto 31 March 1991 which was later extended upto 31 March 1992.

On 19 August 1991 the Company came to know that the firm had indulged in misappropriation of Company's fertilizers stored in Agent's godown. The Company, with the help of State Administration and Police, could recover 2842.00 metric tonne(MT) of fertilizers from various places. However, 4332.80 MT of fertilizers valued at Rs. 128.00 lakhs (at pre-revised price) could not be recovered (January 1997). The Company filed several suits against the warehousing agent which are still subjudice (January 1997).

Following lapses on the part of the Management enabled the agent to misappropriate the fertilizer:-

- appointing the agent on the recommendation of an officer without inviting open tender;
- failure to arrange for storage of fertilizer in Central Warehousing Corporation;
- lack of adequate monitoring of stock;
- not conducting the perpetual/proper annual physical verification of stock; and
- not insuring the material though the Company was required to take insurance cover as per agreement.

Thus, the Company suffered a loss of Rs. 98 lakhs, after adjusting the security deposit of Rs.10 lakhs and other dues to the warehousing agent from the value of the shortages as per pre-revised price, which was around Rs.128 lakhs.

The Ministry in their reply (September 1995) had accepted the facts stating that one of the officers of the Committee appointed for carrying out annual physical verification of stock had signed the verification report, without physically verifying the stock, based on the assurance of Area Sales Officer of the Company. This lapse was a case of system failure and the Company had taken punitive measures and instituted departmental proceedings against the erring employees, besides initiating legal proceedings against the warehousing agent for recovery of the loss.

CHAPTER 9

MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS
(Insurance Division)

NATIONAL INSURANCE COMPANY LIMITED

9.1 Violation Of Banker's Indemnity tariff-loss Of premium

Thanjavur Division of the Company issued a Banker's Indemnity Policy to a Cooperative Bank covering a basic sum insured amounting to Rs.5 lakhs and an additional sum insured for Rs.2.45 crores on premises for the period from 1 July 1993 to 30 June 1994. The additional sum insured was increased by Rs.2.50 crores with effect from 30 September 1993 by charging premium @ 1.03 per cent instead of 6.03 per cent on the additional sum insured as provided in the Tariff for midterm increase in the sum insured, resulting in a loss of premium of Rs.9.50 lakhs.

The Management stated (December 1995) that till 1993, the valuation of the jewellery was for their loan amount and not their actual market value and, in 1993, NABARD stipulated that the jewellery has to be insured for, at the then market value. The Management further stated that the insured had to depend on feed back from its field offices as well as external agencies like valuers to increase the sum insured and there had been some delay.

The Ministry also endorsed (February 1996) the views of the Management. The reply is not tenable as the tariff stipulates a rate of 6.03% for mid term increase in additional sum insured from 19 August 1991 onwards.

Thus, due to charging lower rate, the Company incurred a loss of Rs 9.50 lakhs during the period 1 July 1993 to 30 June 1994.

9.2.1 Incorrect application of tariff

Tariff Advisory Committee (TAC) made(February 1993) amendments/modifications to the All India Fire Tariff (AIFT) and incorporated a separate entry for Telephone Exchanges under Part III Section 7 categorising them as industrial risk rateable @ 1.33 per mille which was applicable to all new business and renewals falling due on or after 1 April 1993.

A Mumbai-based division of the Company issued fire policies to Mahanagar Telephone Nigam Ltd. and Videsh Sanchar Nigam Ltd. for the period 8 April 1993 to 7 April 1994 and 11 April 1993 to 10 April 1994 respectively and charged premium at a rate lower than the applicable rate of 1.33 per mille resulting in an undercharge of premium of Rs.57.11 lakhs.

The Ministry stated (February 1996) that the circular of TAC categorising Telephone Exchanges as industrial risks rateable at the rate of 1.33 per mille was received by them only in December 1993. The Ministry also stated that the Company was making efforts to recover the short-charged premium though they had made representation to TAC to reconsider the categorisation in view of the low claim ratio and the fact that no manufacturing work is carried out in the Telephone Exchanges.

However, it was observed that another subsidiary of General Insurance Corporation of India viz., National Insurance Company Limited is at present charging the correct premium rate applicable to industrial risks to Telephone Exchanges.

Thus, incorrect application of tariff resulted in a loss of premium of Rs.57.11 lakhs.

9.2.2 **Excess settlement of claim**

A Mumbai-based division of the Company covered various properties in Units 1,2 and 3 of a private hydro electric power supply company and its other electric companies for a total sum insured of Rs.40.91 crores during 1 August 1990 to 31 July 1991. The stores and spares were also covered for an additional sum insured of Rs.1.37 crores for the period 22 November 1990 to 21 November 1991.

Consequent to a fire on 4 January 1991, a claim was lodged with the Company. The Surveyors who were appointed to assess the loss reported (November 1991) that though the policy mentioned only Units 1,2 and 3, the stocks related to Units 1 to 6. They had also observed other irregularities such as storing of hazardous and extra hazardous goods against the policy conditions.

The Company, however, overlooked all the above facts and settled (May 1993) the claim in full at Rs.1.16 crores instead of treating it as a non-standard claim for settlement at 75% resulting in a loss of Rs.29.07 lakhs.

The Ministry while admitting the lapse stated (February 1996) that there was a drafting error in the policy that mentioned Units 1,2 and 3 only though the insured intended to cover all the six units. It was further stated that the main store block stored only non-hazardous goods and TAC rated the main stores as godown for non-hazardous goods. It was also stated that as regards storage of extra hazardous goods, the Company has recovered an additional premium of Rs.8.41 lakhs on the additional sum insured.

The reply is not tenable as according to the Surveyors at the time of accident, the insured did not have any records showing the values of non-hazardous, hazardous and extra hazardous goods separately and location-wise values of stores inside various buildings and in the open. As such, the entire stock attracted the highest premium. The Surveyors had also pointed out breach of warranty which

necessitated imposition of penalty.

Thus, failure to treat the claim as a non-standard one resulted in a loss of Rs.29.07 lakhs.

THE NEW INDIA ASSURANCE COMPANY LIMITED (NIA)
UNITED INDIA INSURANCE COMPANY LIMITED (UIIC)
NATIONAL INSURANCE COMPANY LIMITED (NIC)

9.3 Incorrect application of tariff rates

Section 10 of Part III of All India Fire Tariff prescribes zone-wise premium for Earthquake Risks. In the following cases the Insurance Companies did not charge the premium according to tariff and suffered a loss of Rs.13.28 lakhs on account of undercharge of premium.

(i) Ahmedabad division of NIA issued a policy to a group of companies located at Vatwa and Indrad villages for 1990-91 and 1991-92 against Fire and Earthquake risks and the policies were further renewed for the years 1992-93 and 1993-94 by the Divisional Office of UIIC.

NIA charged a premium of 0.20 per mille though the Indrad village falls under Zone III which attracts a premium rate of 0.70 per mille resulting in a loss of premium of Rs.3.47 lakhs. When the Divisional Office of NIA intimated (September 1991) the correct rate of premium to the insured, they shifted (April 1992) their business to UIIC since UIIC promised to charge lesser rate than the tariff rate. Thus, UIIC had also forgone a revenue of Rs.7.99 lakhs for the years 1992-93 and 1993-94.

The UIIC stated (December 1993) that the policy was renewed at the rates charged by NIA on the basis of their Technical Officer's report. The reply is not tenable as the Technical Officer can not prescribe a rate lower than the tariff rate.

The Ministry while admitting (November 1995) that the Risk Engineer had committed a mistake in categorisation of the risk, stated that the recovery of the undercharged premium was not possible since the contract was already over. It was also stated that the error in categorisation was subsequently rectified from 1994-95.

Thus due to incorrect application and undercutting of tariff rates both the Insurance Companies together suffered a loss of premium of Rs.11.46 lakhs.

(ii) According to Tariff Advisory Committee's circular dated 1 June 1991, buildings having RCC structure with panel walls of brick would be treated as class 'B' construction and the earthquake premium would be charged accordingly.

Imphal Division of NIC issued a fire policy with extension of earthquake cover to a power house building and machinery of hydel project for the period 30 June 1991 to 29 June 1992. Although the walls of the power house building were made partly of RCC and partly of bricks the Division charged @ 2.90 per mille, instead of the chargeable rate of 3.70 per mille for Class B construction treating the construction as Class A resulting in loss of premium of Rs.1.82 lakhs.

The Ministry while admitting (January 1996) the undercharge of premium, stated that the insured refused to pay the undercharge of premium. It was also stated that the Insurance company was contemplating to take up the matter with High Power Committee for settlement of the dispute.

Thus, incorrect application of earthquake tariff rates had resulted in loss of premium of Rs.13.28 lakhs (Rs.11.46 lakhs plus Rs.1.82 lakhs).

ORIENTAL INSURANCE COMPANY LIMITED

9.4 Violation of Tariff provision

According to the provision of All India Fire Tariff, subsidence and landslide cover should not be granted only for few selected items of property but should be granted if all the property owned by the insured(viz. Building, Plants and Equipment, Stock in process, other stocks & materials and all other properties) is covered.

Bhubaneshwar Division of the Company issued a fire policy in favour of insured's cable belt, Magazine building, Electrical Sub-station, tyre godown, HSD Tank, Crusher House for the period 5 October 1993 to 4 October 1994 and was subsequently extended upto 4 October 1996. But subsidence and landslide cover was granted only to certain portions of cable belt in violation of the tariff provision.

Thus, grant of selective cover in violation of the tariff provision has resulted in loss of premium of Rs.36.70 lakhs.

The matter was referred to the Management and the Ministry in December 1996; their replies have not been received (January 1997).

BANKING DIVISION

ALLBANK FINANCE LIMITED

9.5 Irregularities in securities deal

On 9 April 1992, the Company took a loan of Rs.100 crores from Housing & Urban Development Corporation (HUDCO) for 46 days at an interest of 21 per cent per annum for investment and to be repaid by 25 May 1992. With this fund, the Company purchased (9 April 1992), through a share broker, 60,000 shares of ACC at the rate of Rs.10,000 per share totalling Rs.60 crores and 9 per cent IRFC bonds (42

lakhs in Nos.) at the rate of Rs.92.75 per Bond totalling Rs.39.98 crores. On 9 April 1992, while the Bombay Stock Exchange remained closed the highest market quotation on that date of ACC shares was Rs.8400 per share in other stock exchanges. The market quotation of ACC shares at Bombay Stock Exchange on 8 and 10 April 1992 varied between Rs.8300 and Rs.9100 per share. The Company did not produce any basis and justification for the purchase of ACC shares at the rate of Rs.10,000 per share.

The Company entered into a forward sale contract with the same broker on 29 April 1992 for sale of these securities; ACC shares at the rate of Rs.10,289.75 per share totalling Rs.61.74 crores and IRFC Bonds at the rate of Rs.94.28 per bond aggregating Rs.41.10 crores. This would earn the company a small return of Rs.19.27 lakhs which is only 0.19 per cent of the total investment of Rs.100 cores. The sale was to be effective on 25 May 1992.

Meanwhile, as the market price of shares fell drastically, the broker approached (21 May 1992) the Company to grant extension for 30 days for purchase of securities which was to take place on 25 May 1992, and made commitment to pay interest at the rate of 24 per cent per annum in case he failed to take delivery of the securities. Later on the interest was reduced to 20 per cent in March 1993 on the request of the broker. The broker also pledged certain securities in favour of the Company to ensure that the contract was duly completed. The broker took delivery of 25,000 ACC shares at the rate of Rs.4000 per share on 3 June 1992 and paid Rs.10 crores to the Company. He again took delivery of another lot of 75000 shares of various companies including 25000 ACC shares at the prevailing market price and paid Rs.14.19 crores on 15 June 1992 in two cheques. He also confirmed the outstanding debt of Rs.49.65 crores as on 31 March 1993.

The broker having failed to fulfil the contractual

obligation of purchasing of IRFC Bonds, the Company ultimately sold the bonds to Citibank at the rate of Rs.86 per Bond and realised Rs.37.99 crores. However, the broker provided additional shares and debentures worth Rs.3.99 crores to meet the loss of Rs.3.93 crores sustained by the Company on sale of the Bonds.

Meanwhile, the shares given by the broker as collateral securities became tainted as per notification dated 8 June 1992 of the Special Court (Trial of Offences relating to Transaction in Securities) Act , 1992. The Company filed a petition before the Special Court for de-tainting of shares aggregating Rs.21 crores. The verdict of the Special Court is awaited (January 1997). The cheques for Rs.14.19 crores received from the broker were dishonoured and the Company filed a criminal case (July 1993) against the broker in the Special Court under Section 138 of the Negotiable Instruments Act 1881. The Special Court did not accept (April 1996) the case on ground of jurisdiction. The Company approached (July 1996) the Supreme Court to ascertain the appropriate court to file the case against the broker. The verdict of the Supreme Court is awaited (March 1997). In March 1996, the Company filed a civil suit against the broker in the High Court at Bombay for a sum of Rs.70.93 crores plus interest at the rate of 24 per cent per annum from the date of filing the suit till the realisation. The verdict of the High Court is awaited (March 1997).

The Central Bureau of Investigation (CBI) had registered a case against the Ex-Chairman and Ex-Additional Managing Director of the Company. The outcome of the CBI investigation is awaited (March 1997).

The Company had ultimately to repay (May 1992) its loan and interest thereon amounting to Rs.102.65 crores to HUDCO by raising funds at interest rates ranging between 19 per cent to 19.5 per cent from other sources including Rs.46 crores as temporary overdraft from Allahabad Bank.

The Ministry (Department of Economic Affairs-Banking Division) forwarded to audit the views of the Reserve Bank of India and Allahabad Bank confirming the facts and figures (September 1996).

As on 31 March 1996, however, the Company was yet to recover Rs.34.66 crores from the broker. Out of this amount, the Company made a provision of Rs.22.71 crores in its accounts upto 31.3.1996 towards bad and doubtful debts.

An analysis in audit of the above transaction revealed that :

(i) The investment of Rs.100 crores through a single broker in contravention of the principles of safety of funds was improper and can be termed as an imprudent decision. It appears that the transaction was undertaken only to facilitate the interests of the broker.

(ii) The acceptance of deposit of Rs.100 crore by the Company was in contravention of Section 293(1)(d) of the Companies Act as the borrowing was in excess of its paid-up share capital and free reserves (Rs.5.26 crores). The Company did not have powers to do so. This was, however, subsequently regularised by obtaining ex-post-facto approval in the Annual General Meeting.

(iii) The decision of HUDCO to place its funds of Rs.100 crores in inter-corporate deposit with Allbank Finance Limited (whose net worth was only Rs.5.26 crores) was imprudent and not justifiable especially when viewed against HUDCO's primary objective of financing housing projects.

Allbank Finance Limited could repay the money to HUDCO by borrowing a substantial amount from Allahabad Bank, who being the promoter of the Company, should have exercised adequate control over the activities of the Company instead of ultimately bailing out its subsidiary.

CHAPTER 10

MINISTRY OF FOOD

CENTRAL WAREHOUSING CORPORATION

10.1 Avoidable fire insurance of metal stock

The Central Warehousing Corporation (Corporation) insures the stocks of depositors stored in its godowns or in the open, including metal stock,under 'All India Floater Declaration Policy'. The risks covered under this policy are fire, flood, cyclone, etc.

When the Corporation was seeking the insurance cover for the year 1993-94, the insurer informed (October 1993) it that the stocks lying in open were not insured/covered under the aforesaid policy and that a separate policy was to be taken for such stocks. Accordingly, the Corporation took a separate fire policy for the stocks lying in open for the period 21 October 1993 to 20 October 1994 and paid a premium of Rs.14.94 lakhs @ Rs.1.83 per mille (revised rate) of the value of the stock less a special discount of 5 percent.

The premium had been revised from Rs.1.43 per mille to Rs.1.59 per mille for covered stock and Rs.1.83 per mille for open stock w.e.f. 7 June 1993. Subsequently, however, the Corporation discontinued w.e.f. April 1994 the insurance policy for open stock because it consisted of either metal or metal products, not prone to damage by fire, and accordingly received (May 1994) a refund of Rs.8.74 lakhs from the insurer.

It was, however, noticed in audit that premium for metal stock in open was in fact Re.0.90 per mille instead of Rs.1.83 per mille payable for unclassified non-hazardous goods.

The Corporation paid Rs.39.03 lakhs as premium towards

insurance for the period from April 1989 to March 1994 for its metal stocks which was subsequently (March 1994) not considered necessary. The amount includes an avoidable excess payment of Rs.15.32 lakhs made due to failure of the Corporation to correctly classify its metal stocks.

The Ministry stated (January 1996) that as the floater policy did not specifically exclude stocks lying in the open from its purview the Corporation continued to insure its stocks in the open under that policy and that the entire premium paid by the Corporation had been recovered from its depositors by levying ad-valorem charges.

The reply is not tenable as the Corporation could have kept itself familiarised with the exact terms and conditions of the policy and passing on the cost of its failure to its depositors is not fair to them. The Corporation has also continued to levy the same charges on its depositors even after discontinuance of insurance with effect from April 1994.

CHAPTER 11

MINISTRY OF FOOD PROCESSING INDUSTRIES

MODERN FOOD INDUSTRIES (INDIA) LIMITED

11.1 Loss due to payment of advance without any security

The Company placed an order (January 1990) on a supplier of United Kingdom, for the import of 3 sets of Rebuilt Slicing and Wrapping Machines at £ 40000 per set, CIF, Bombay. The terms of the purchase order envisaged 40 per cent payment with the order and the balance 60 per cent on production of shipping documents, both against letter of credit (LOC). Accordingly, an advance of Rs.14.54 lakhs (equivalent to £ 48000) was paid (May 1990) to the supplier without obtaining any bank guarantee.

Even though the point regarding incorporation of a clause in the purchase order to safeguard the interest of the Company was considered before finalising it, the matter was treated as settled on the plea that a suitable provision in this regard will be incorporated in the LOC. However, this was not done. Also, since a copy of the application to the Bank to open the LOC was not available on record, it was not possible to ascertain whether the requirement was indeed communicated to the Bank.

No supply was received till August 1990, the scheduled date of delivery, and in October 1990, the supplier went under liquidation. The Company had lodged its claim for the recovery of the advance but the chances of recovery are remote since the liquidity position of the supplier firm is very poor. No action could also be taken against the supplier's Indian agents because the contract was entered into direct with the supplier.

A Committee constituted (November 1994) to examine the

case attributed (January 1996) the lapse to a bonafide error on the part of the Finance Division of the Company headed by the then Financial Advisor, who had since retired voluntarily, in July 1992.

The Ministry to whom the matter was referred in January 1995 and November 1996 intimated (January 1997) that it did not agree with the conclusion of the Investigating Committee and felt that action should be taken to fix responsibility on all the officers who were a party to the decision and also those responsible for drafting the purchase order. Responsibility was, however, yet to be fixed (January 1997).

Thus, due to release of an advance payment without any safeguards, the Company incurred a loss of Rs.14.54 lakhs in foreign exchange for which no action had been taken against anyone.

CHAPTER 12

MINISTRY OF INDUSTRY

DEPARTMENT OF HEAVY INDUSTRY

BHARAT HEAVY ELECTRICALS LIMITED (BHEL)

12.1.1 Avoidable extra expenditure due to non-placement of repeat order

For 5 sets of Steam Turbine Integral Pipe Lines required by the Company for its projects at Mezia, Panipat and Vijayawada, action for procurement was initiated in March 1991 on request made in September 1990. The Company had developed two suppliers, viz., M/s U and M/s D for this material by putting considerable efforts and inputs on earlier occasions and whose performance had also been satisfactory. Accordingly, Manager (AIX) had recommended (31 March 1991) placement of repeat order on M/s U for 3 sets @ Rs.14.31 lakhs per set (i.e rate of earlier order) and on M/s D for 2 sets at a negotiated rate of Rs.14.31 lakhs per set which was lower than the earlier occasion.

The Management, however, did not agree (April 1991) to this proposal on the ground that placing of repeat order was against the policy of the Company particularly when there was a declining trend of prices in the market.

The matching of price by M/s D with M/s U, which was lower by Rs.0.44 lakh per set compared to its price on earlier occasion, was construed as indicative of declining trend in prices in the market without carrying out any survey or study to establish the declining trend.

Higher quotations were received on calling fresh limited tenders and, based on fresh negotiation, orders were placed involving extra expenditure of Rs.22.93 lakhs. The

orders for 4 sets out of 5 sets were placed on M/s U and M/s D in January, 1992 (the same parties, whose prices were considered higher on repeat order) at a price of Rs.19.62 lakhs and Rs.19.38 lakhs per set respectively as against their earlier price of Rs.14.31 lakhs.

Thus, non-placement of repeat orders on the established suppliers whose capabilities were developed with considerable efforts and inputs from the Company and whose performance in execution of earlier contracts was satisfactory resulted in avoidable extra expenditure of Rs.22.93 lakhs.

The Management in its reply (October 1995) stated that repeat orders were not placed in order to obtain competitive rates. The reply is not tenable as the invitation of limited tenders indicated that there was no scope for competitive prices for this type of specialised job.

The matter was referred to the Ministry in September 1995; their reply has not been received (January 1997)

12.1.2 Manufacture of solar water heater systems without receipt of firm orders.

In March 1993, the Ministry of Power and Non-conventional Energy Sources (MPNES) sanctioned a programme for the installation of 58 solar water heater system, comprising 6838 collectors, in West Bengal to be undertaken by the West Bengal Renewal Energy Development Agency (WBREDA) at a total cost of Rs.745.08 lakhs. For the purpose, MPNES was to provide non-recurring subsidy of Rs.2,000 per collector to WBREDA for passing on to beneficiaries of the programme. Based on the MPNES sanction, the State Government issued (March 1993) work orders to BHEL for the supply, installation and commissioning of 6719 collectors at 40 sites of the beneficiaries identified by the State Government. In the work order, the State

Government had committed itself only to the extent of releasing the subsidy element and that too on successful installation and commissioning of each system; the balance cost was to be borne by the beneficiary units. Even prior to the receipt of these work orders, and also without receipt of any direct orders or advance payment from the beneficiaries, the Company had manufactured at its Rudrapur Plant as many as 6719 collectors and despatched 5374 units to Kolaghat in November/December 1992 (2067 units) and March 1993 (3307 units) of which 3479 collectors were later on brought back to Rudrapur Plant. Of the collectors manufactured, only 3525 could actually be utilised under the programme and the balance quantity of 3194 collectors costing Rs.181.33 lakhs were lying unsold as of 24 January 1996. Of these, 1059 collectors (cost Rs.58.91 lakhs) were still lying unsold at Kolaghat (25) and Rudrapur (1034) as intimated (November 1996) by the Company.

The manufacture of collectors without firm orders/commitments from the user beneficiaries thus resulted in blockage of funds ranging from Rs.58.91 lakhs to Rs.181.33 lakhs for about 22 to 32 months and loss of interest thereon amounting to Rs.62.95 lakhs, computed at 16.5 per cent per annum from April 1994 onwards.

The Company attributed (July 1995) the blockage of funds and consequential losses to imposition of adverse and unexpected payment and other terms and conditions by WBREDA which were neither agreed to before issue of work orders nor were in line with the practice of other nodal agencies.

The Ministry stated (March 1996) that WBREDA was not taking any responsibility for the collectors made on their specific requisition and on which they had obtained subsidy from MPNES. The fact, however, remains, that the Company manufactured these collectors without having received any firm order and also without finalisation of commercial terms and conditions of supply, despite knowing that payment

modalities and responsibility of State Governments/Nodal Agencies differ from State to State.

12.1.3 Avoidable extra liability due to undue favour to a contractor

In January 1994, BHEL invited tenders for the erection, testing and commissioning of 6x62.8 Tonne Per Hour (TPH) waste heat recovery boilers at the gas turbine power station of DESU at Indraprastha ,New Delhi. After technical and commercial evaluation of the tenders received,the tender committee recommended (28 February 1994) that the price bids of only 5 tenderers be opened. The bid of contractor 'A' of Baroda was not among those recommended as its performance report received from the Company's Western Region Office was found to be adverse on 3 March 1994. Despite this, the price bid of 6 tenderers, including contractor 'A', was opened on 4 March 1994, following revised recommendation of the tender committee dated 4 March 1994, which was accepted by the management. The recommendation of the tender committee was revised on the day of opening price bids and within a day from acceptance of its earlier recommendation, despite no material change in the position of contractor 'A'.

The tender committee, while revising its recommendation to include contractor 'A' for opening price bid considered the same material facts which were already considered before its earlier recommendation and also overlooked very tight commissioning schedule of Waste Heat Recovery Plant (WHRP) of DESU at Indraprastha, New Delhi.

The price bid of contractor 'A' was found to be the lowest at an evaluated tender price of Rs.169.98 lakhs and, accordingly a letter of intent (LOI) was issued on 17 March 1994 and was also accepted by 'A'.The second lowest

evaluated bid was that of contractor 'B' of Madras at Rs.191.35 lakhs.

'A' did not submit the security deposit nor did it execute the contract agreement and instead asked for an interest-free mobilisation advance amcunting to 10 percent of the contract value which was neither covered by its offer nor by the LOI. Finally, 'A' requested (June 1994) the Company to short-close the contract with no financial implication on either side.

'B' was then approached to take up the work at its earlier quoted price of Rs.191.35 lakhs but declined. Thereupon, limited price bids were invited from the 5 technically cleared tenderers and revised lowest offer of 'B' at Rs.211.87 lakhs was accepted on 2 July 1994. Thus, the Company had to incur an extra liability of Rs.20.52 lakhs being the difference between the original and the revised price bid of B, solely due to the undue favour shown to 'A' in entertaining its price bid without any justification. Further, in the process, the commencement of the work, which was of urgent nature, had also got delayed by over 3 months. However, no notice of risk purchase was served on nor was the issue of levy of any penalty taken up with the defaulting contractor 'A' despite incurring extra expenditure of Rs.41.89 lakhs (Rs.211.87 lakhs - Rs.169.98 lakhs). They were merely asked to meet their statutory and financial commitments to the project and it was decided to view the matter regarding penalties separately.

The matter was reported to the Company in July 1995 and to the Ministry in October 1996; their replies have not been received (January 1997).

12.1.4 Loss due to wrong machining of a rotor forging

BHEL received (November 1987) an order from Nuclear Power Corporation of India Limited (Customer) for the

manufacture and supply of 2 X 235 MW turbine generator (TG) sets for their Kaiga Atomic Power Project. On the basis of this order, the Bhopal unit of the Company issued (January 1988) a work order for the manufacture of one Low Pressure Rotor (LPR) required for one of the TG sets.

On this rotor, 78 slots were to be cut at precise angles to fit in the blades. While cutting the slots, one slot was wrongly cut at an angle of 77.459 degree instead of at 78.459 degree due to wrong indexing. This rendered the rotor forging costing Rs.63.26 lakhs useless for the T.G.set and the rotor was rejected (September 1993) by the Company.

The Enquiry Committee set up to enquire into the lapse observed that wrong indexing was due to non-observance of detailed laid down procedure in this regard.

The Ministry stated (December 1996) that the error was due to human fatigue and action has been initiated to fix the responsibility for the lapse. The remedial measures suggested by the Enquiry Committee has also been introduced with a view to completely avoid recurrence of such mistake in future. Ministry's contention regarding error is not tenable in as much as if the procedure is fully followed then there is no chance of wrong indexing.

A Task Force constituted by the Company for utilisation of the rejected rotor forging estimated (May 1995), its salvage value to be Rs.6.40 lakhs. However, it has not been used/salvaged so far (January 1997).

Thus, due to non-observance of laid down procedure in machining of the rotor forging the Company had to suffer a loss of Rs.56.86 lakhs.

12.1.5 Unauthorised despatch of equipment

Assam Industrial Development Corporation Limited (AIDC), Guwahati, placed an order on BHEL in February 1989 for the design, manufacture, supply, testing, supervision of

erection and commissioning of 1x5 MW Turbine Generator Set, valued at Rs.409.95 lakhs for supply etc., plus supervision charges at prescribed rates for 24,000 TPA Extensible Sack Kraft Paper Project of AIDC at Dhing, Assam. The despatch of consignment was to be effected only after the inspection of the equipment by the customer's consultant (Development Consultants Limited), and after obtaining the clearance from the customer. The ex-works supplies were to be completed within 20 months i.e. by 31 October 1990.

In November 1990, while the supplies were in progress, the customer requested the Company to keep further manufacturing and despatch of fabricated equipment under temporary suspension under provision of the general terms and conditions of the agreement as they were in financial crisis. Despite this, the main items, viz., Steam Turbine and Generator, having an intrinsic sale value of Rs.173.62 lakhs were manufactured by the Division after March 1991, and despatched to the customer in March 1992 without inspection by the customer's Consultant as also the specific clearance from the customer themselves, resulting in blockage of funds to the extent of Rs.122.89 lakhs, even after adjustment of the expected profit of Rs.22.29 lakhs and the unadjusted advance of Rs.31.33 lakhs held by the Company. This also led to consequential loss of interest of Rs.105.07 lakhs (December 1996) and possible deterioration in the value of equipment despatched.

The Ministry stated (November 1995) that the Unit had gone ahead with testing, and despatched the equipment with the hope that payments would be released and the supply of equipment by the unit as per the contract was a sound commercial judgement. This is not tenable as the equipment were manufactured and despatched despite the imposition of "hold on" by the customer.

Further, the Company's efforts since June 1992 to sell the equipment to other customers also did not yield any

results as the equipment was tailor made. Though the Company indicated (February 1993) its intention to bring back some of the equipment despatched, no further action in this regard was taken (January 1997).

12.1.6 Loss in execution of an order

Bharat Heavy Electricals Limited, entered (October 1987) into two agreements i.e. (i) for supply of equipment and (ii) for services which consisted of transportation of equipment, erection, testing and commissioning of 2x11/15.6 MW Co-generation Power Plant, a World Bank aided project, for the Mahul Refinery of Bharat Petroleum Corporation Limited, Bombay. It was to be executed at a fixed price (FOR works/port of entry) of Rs.3326.60 lakhs, subject to variations on account of foreign exchange rates and Sales Tax. The Company accordingly placed an internal order (December , 1986) on its Hyderabad Division for a total price of Rs.2714.60 lakhs. (Rs.2453.98 lakhs for supply of equipment and Rs.260.62 lakhs for services). The two units were to be commissioned by January, 1988 and February, 1988 respectively, so as to synchronise with the target date for completion of the entire project by 20 March 1988.

The Company supplied the equipment and commissioned them with time overruns of 8 to 12 months and incurred an expenditure of Rs.3923.67 lakhs as against the sales realisation of Rs.3150.39 lakhs (including deemed export incentives and exchange rate variation). Thus, the Company incurred a loss of Rs.773.28 lakhs on execution of the order. The sales realisation of supply portion (Rs.2889.77 lakhs) did not cover even the direct costs of Rs.3004.66 lakhs, resulting in a cash loss of Rs.114.89 lakhs.

The Management stated (November 1995 and December 1996) that this was one of the initial orders executed for the manufacture of Gas Turbines and they had no reference list

to prove their credentials with respect to manufacturing capabilities and servicing infrastructure. In order to show substantial price difference and with a view to bag the order, a lower figure was quoted.

The fact remains that it was not commercially prudent for the Company to have quoted a lower sale price which utilimately did not cover even the direct cost.

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

12.1.7 Irregular payment towards LTC.

The Corporate Office of BHEL issued instructions in December 1987, to the effect that the reimbursement of LTC expenses incurred for travelling by Chartered Buses and Taxis would be allowed only in cases of travel by buses belonging to the State Road Transport Agencies/ITDC/Central/State Government Agencies to fall in line with the banning of LTC travel by buses owned by private operators. These instructions were suspended by the Company in February 1988 but were reintroduced from August 1992.

However, the Trichy Unit of Company allowed the LTC claims for the journeys performed by private Chartered Buses and Taxis during the period between September 1992 and June 1995 and made a payment of Rs.719.58 lakhs, which was irregular.

The Ministry in its reply dated 13 November 1995, inter alia, stated that the Corporate Office instructions could not be implemented at Trichy Unit because of:

- non-existence of arrangements to hire buses belonging to State Transport/ITDC/Other Government Agencies.
- inability of State Transport Agencies to provide

adequate number of required type of buses for long journeys.

- such a step would be fraught with industrial relations problems in view of aforesaid practical difficulties.
- the expenditure was restricted to the entitled rail fare and there was no additional expenditure on the Company.
- deterrent punishment measures were contemplated against the defaulters to avoid any misuse of the facility.

The reply of the Ministry is, however, not tenable in the light of the fact that the instructions regarding non-reimbursement of LTC expenses incurred for travel by private chartered buses and Taxis which were reintroduced in August 1992 had given no exemption to Trichy Unit. The practice of allowing the travel on LTC by private chartered buses/taxis was discontinued in Trichy Unit also from July 1995.

Thus, by admitting LTC claims of Rs.719.58 lakhs for journeys performed by private chartered buses and taxis by the Trichy Unit of Company, the unit violated the instructions of the Corporate Office. Hence, the payment of Rs.719.58 lakhs was irregular.

BBJ CONSTRUCTION CO.LTD.

12.2 Loss due to improper execution of a work

The Company received an order in August 1992 from Eastern Railways for launching of Girders for Bridges No.383 D and 38 on the doubling between Farakka and Malda Town for Rs.69.33 lakhs. In January 1994, the cantilever span under erection fell into the canal. The Company constituted an enquiry committee for finding out the probable causes of failure. The Committee in its report (February 1994) indicated that there might be some manufacturing defects and the quality of steel was also not upto the mark. Railways did not recognise (March 1994) this committee as they were

not associated with it in advance and also stated that the report contained suggestions about some probable causes instead of actual causes for the collapse. At the instance of Railways, Research Designs and Standard Organisation (RDSO - an organisation under Ministry of Railways) conducted detailed investigation into the causes of the accident and reported (April 1994) a number of deficiencies in assembling and erection of the anchor span. Railways contended (May 1994) that some of the deficiencies listed in RDSO's report were due to not following the drawings and specifications properly and completely by the Company. Thus the Company was held solely responsible for the accident and they were asked to take up the work of salvaging the fallen girder and complete the bridge erection early. The span was successfully landed in January 1995. The Company submitted (November 1994) an interim claim of Rs.59.17 lakhs to Railways to compensate for the additional amount spent by the Company. The Railways maintained (February 1995) that the earlier failure took place primarily due to lapse in supervision and improper fixing of components. Though the Company was still pursuing the claim, there was no positive response from the Railways (December 1996). Meanwhile, the Company provided for the full amount in the accounts towards loss for this work.

Due to improper execution of the work, the Company suffered a loss of Rs.59.17 lakhs in respect of which the Management has stated (November 1995) that the provision for loss was made in accounts on a conservative basis and that the Company would pursue the claim with Railways. The Ministry endorsed (March 1996) the views of the Management in their reply.

12.3.1 Loss in execution of an order

In June 1987 the Company received an order from the Railway Board for fabrication and supply of 40 BTPGL wagons by 31st July 1988 at a price of Rs.5.18 lakhs per wagon with escalation for wages and components based on price line prevalent on 1st April 1986.

The fabrication of the wagons, inter-alia, involved manufacture of underframes and tank barrels. The Company did not have the infrastructure of its own for manufacture and mounting of tank barrel, and therefore off-loaded in January 1988 the job for the first lot of 20 barrels to another Public Sector Undertaking (PSU) at a firm price of Rs.3.10 lakhs per barrel to be delivered by April 1988. The sub-contractor could not supply a single barrel by the due date, but even then the Company placed (February 1991) another order for supply of the remaining 20 barrels on the same party at a firm price of Rs.4.30 lakhs per barrel on the consideration that it was a PSU.

The sub-contractor completed the supply by March 1993 for a total of 38 wagons after a delay of 55 months. The order was short-closed by the Railway Board (August 1994) for 38 wagons against 40 wagons originally ordered since they could not supply certain basic materials which were to be supplied free of cost.

At the instance of the Company, the Railway Board granted extension of delivery period from time to time upto 31st March 1993 with the condition to recover liquidated damages but without the benefit of cost escalation beyond the contractual period. A sum of Rs. 20.73 lakhs was deducted by the Railway Board on account of liquidated damages. On the other hand, the Company levied Rs.6.02 lakhs towards liquidated damages on the sub-contractor but no

recovery has been made (January 1997).

The Management attributed (February 1996) the delay in supply of wagons to the sub-contractor not having requisite railway siding facilities and consequent necessity to off-load the job of manufacturing tank barrels to another private contractor as late as in July 1990. The supply was also delayed because the Company had to pay excise duty for despatch of underframe from the Company's work at Howrah to the sub-contractor's premises at Bombay for which there was no provision in the contract. The Company's request to allow exemption was turned down by the Central Excise Authority in December 1989 causing delay in supply of underframes. The underframes could not also be supplied by the Company in bulk due to shortage of space in the leased yard of the sub-contractor. There was also delay on the part of the Company in manufacture and supply of underframes to the sub-contractor.

The Company incurred an expenditure of Rs.13.46 lakhs towards payment of excise duty and Rs.13.11 lakhs for transportation of the underframes from its works at Howrah to Bombay which could not be recovered from the Railway Board for want of any provision in the contract.

The sale value of the order stood at Rs.240.06 lakhs against the total cost of Rs.343.25 lakhs incurred on the job as on 31 March 1994 resulting in a loss of Rs.103.19 lakhs.

The Management justified the taking up of this job by saying that inspite of various adverse factors the Company earned a contribution of Rs.21.60 lakhs towards its fixed costs and therefore the loss was notional. The Ministry endorsed (September 1996) the views of the Management. However, it may be stated that it was not prudent to accept an order without adequately covering the additional costs due to transportation and other items on account of sub-contracting and in the end the supply by the sub-contractor

should have been ensured by close interaction with them. A private firm ultimately manufactured the barrels.

12.3.2 Avoidable expenditure on electricity charges

The Company entered into an agreement (April 1991) with the Tamilnadu Electricity Board (Board) for augmenting electricity supply from 2000 KVA to 3000 KVA for a period of 5 years with effect from 25th March 1991. Under the agreement, the Company was obliged to pay to the Board contracted demand charges, energy charges, surcharge etc. The Board charged for the actual consumption of power upto 18th October 1992 irrespective of the revised contracted load of 3000 KVA. However, from 19th October 1992 the Company was required to pay for the actual consumption or 75 per cent of the contracted load whichever was higher. Despite the fact that the actual consumption of electricity was always between 850 KVA to 1233 KVA during the period from October 1992 to November 1993, the Company obtained reduction of the contracted load from 3000 KVA to 2000 KVA only in November 1993 on the ground that the entire factory could not be run due to several techno-commercial problems.

The Company paid Rs.12.03 lakhs towards unconsumed electricity for the period from October 1992 to November 1993 due to low consumption though the contracted load was high. The demand charge was increased further by the Board to 100 per cent of the contracted load from June 1994. It was noticed that the actual consumption of electricity was between 250 KVA to 1333 KVA during the subsequent period from November 1993 to March 1996. The Company paid Rs.22.96 lakhs towards unconsumed electricity during this period.

The Ministry stated (December 1995) that the enhancement of contracted load from 2000 KVA to 3000 KVA in March 1991 was made with a view to ensure un-interrupted

power supply for additional production to be achieved under the expansion and modernisation programme. The connected load at that time was 4148 KVA and increase of contracted demand from 2000 KVA to 3000 KVA was considered sufficient taking into account the fact that a number of heavy equipment and one kiln were non-operational. Reduction in contracted demand was not considered necessary till August 1993 taking into account prevalent power cuts, receipt of substantial orders from SAIL and others during 1992-93. After reduction of the contracted load to 2000 KVA in November 1993, it was not considered necessary to reduce it further since it was not possible to keep contracted demand exactly as per actual utilisation and that 25 per cent to 30 per cent excess over anticipated demand was kept as contracted demand in any industry to take care of unforeseen power requirement and power cuts.

The reply of the Ministry is not tenable in view of the fact that the actual power consumption was much less as stated above and it ranged between 28.33 per cent and 41.11 per cent of the contracted load during the period October 1992 to November 1993 and between 12.5 per cent and 66.67 per cent during the period November 1993 to March 1996. Thus, even taking into consideration the Ministry's assessment of 25 per cent to 30 per cent of contracted load generally remaining un-utilised, the actual utilisation was much less in the present case pointing to the failure of Management for timely review and reduction of contracted load. The contract demand was reduced to 1500 KVA from 2000 KVA only in July 1996.

Thus, as a result of unrealistic assessment of electricity required and delay in taking timely action for reduction of contracted load the Company incurred an avoidable expenditure of Rs.34.99 lakhs during the period from October 1992 to March 1996.

CEMENT CORPORATION OF INDIA LIMITED

12.4.1 Loss due to misappropriation and shortage of cement

The Company awarded (June 1993) a contract for clearing, forwarding, handling and storage of cement at Hyderabad Dump to a private contractor for a period of one year with effect from 12th May, 1993. The terms and conditions of the contract stipulated, inter alia , that the contractor was required to collect the railway receipts from the Zonal Office at Hyderabad, unload cement from the rake, transport directly to the customers in case of ex-factory sales and transport the remaining stock to the Dump Godown of the contractor. Transport cement to customers from the Dump Godown in accordance with the delivery instructions of the Company.

As per terms of the contract, the Contractor was also responsible for the safety of stored cement and for maintaining the dump on behalf of the Company. The Contractor was also to indemnify the Company against any loss due to storage. In addition, the Contractor was required to maintain such registers and records and abide by such directions and instructions as might be issued to him by the Company from time to time.

The Company received complaints in March/April, 1994 from various stockists/customers about non-receipt of cement from the Contractor. On inspection of godowns by the Company's representatives in April 1994 it was found that prima-facie there was misappropriation of stock of cement by the Contractor. A firm of Chartered Accountants appointed by the Company to reconcile the stocks and to ascertain the exact shortage, reported (July 1994) that 4634.44 tonnes of cement valued at Rs.69.21 lakhs was misappropriated by the contractor. The Company filed a criminal case in May 1994 and February 1995 against the Contractor for issuance of 9 cheques amounting to Rs.123.70 lakhs by the Contractor to the Company, which were dishonoured by the Bank (these

cheques were issued as payment by the Contractor for credit sales of 8200 tonnes of cement between December 1993 to March 1994) and for misappropriation of cement stock.

The case was subsequently referred to arbitration in December, 1995. According to the claim lodged by the Company with the Arbitrator, the value of cement misappropriated, damaged and not delivered by the Contractor, amounted to Rs.78.81 lakhs and the amount claimed was double of this amount, viz., Rs.157.62 lakhs according to the terms of the Contract.

The loss due to misappropriation of cement could have been avoided had the Company inspected the stock of cement as well as records at the Contractors' godown regularly as envisaged in the contract and kept a valid and continuing bank guarantee or such other security from the Contractor.

The Management stated (February 1997) that

(i) adequate control mechanism existed in the Corporation to check the malfunctioning of the handling and transport contractors and for detecting the irregularities/negligence on the part of the officers of the Corporation.

(ii) departmental action against the erring officials has also been taken by the Corporation.

(iii) an amount of Rs.22.78 lakhs has already been recovered from the Party's account towards encashment of Bank Guarantee, sale proceeds of damaged cement and adjustment of the Hand Bills for 1993-94.

The reply is not tenable since the misappropriation would have been detected much earlier had the internal control procedures, including the inspection of stock in the contractor's godown, been followed properly from the beginning. Further, the fraud was initially detected by Company based on the complaints received from customers/stockists. The Company should have initiated appropriate action immediately after cheques had been

dishonoured.

The court cases as also the arbitration were still pending (January 1997). The matter was referred to the Ministry in December 1996; their reply has not been received (January 1997).

12.4.2 Blockage of funds and avoidable liability of penal interest on imported spares

Acting upon indents placed by its Tandur and Nayagaon Units the Company during 1992-95 imported spares worth Rs.4.53 crores through eleven consignments received at respective ports of destinations between September, 1992 and February,1995. But owing to financial crunch faced by it the Company could not pay the customs duty aggregating Rs.5.27 crores on these consignments and thus failed to clear any of these consignments immediately on their arrival in India (consignments remained uncleared for periods ranging from 6 months to 50 months). A direct impact of non clearance of these consignments is the levy of interest at 20 per cent per annum on Customs Duty payable, upto the date of actual payment. As a result, interest of Rs.2.37 crores is already leviable on 8 consignments, for which bills of entry were presented by the Company upto November 1996. Some of the spares (value: Rs.1.66 crores) had never been stocked or used before or were meant to be kept on the inventory for future contingencies. The consignments included 4 consignments which had been got airlifted at an additional cost of Rs.16.08 lakhs on the grounds of urgency. Of these consignments only 3 were cleared (1 in part only) in August, 1995, about two years after import, while the others still remain uncleared.

The liquidity problems of the Company were discussed in several meetings of the Board of Directors held between October 1993 and October 1996. The Joint Secretary, Ministry of Industry who represented the Government of India on the Board, in October 1995, took up the matter with his

counterpart in the Ministry of Surface Transport and with the Member, Customs, Central Board of Excise and Customs, Ministry of Finance requesting release of goods on deferred payment basis.

The case makes it evident that by effecting imports unmindful of its own financial position, the Company has failed to serve the very purpose of importing spares. Besides, an amount of Rs.3.98 crores remained blocked from September 1992 to December 1996 while an additional liability of Rs.2.37 crores has been acquired thus worsening further the financial position of the Company. Also the deterioration in the condition of these spares, the guarantee periods in respect of some of which have already expired, can not be ruled out.

The Ministry stated (January 1997) that imported spares/equipment were mandatory insurance spares and were essentially required. It was also stated that Director (Operations) approved the airlifting without the approval of Chairman cum Managing Director. The contention of the Ministry is not tenable in view of the fact that if the spares/equipment were so essentially required the Ministry should have provided necessary funds to bail out the Company.

CYCLE CORPORATION OF INDIA LIMITED

12.5 Extra payment under Voluntary Retirement Scheme

The Company received (April 1990) approval of the Ministry of Industry (Department of Public Enterprise) for introduction of Voluntary Retirement Scheme. Benefits allowed under the scheme were, inter-alia, (i) an ex-gratia payment computable on the balance months of service left before normal date of retirement of the eligible workmen

(ii) a cash value of only un-availed privileged/earned leave accumulated in terms of the rules upto the date of release on Voluntary Retirement, and (iii) gratuity as admissible under Payment of Gratuity Act, 1972.

(i) Prior to receipt of approval of the Ministry, the Management issued a notice in July, 1989 seeking applications from the workmen for revision of date of birth. While verifying the dates of birth at the time of appointment and revising the dates of birth of the workmen, the Management did not comply with the provisions of Industrial Employment (Standing Orders) Central Rules, 1946 which stipulate that an employer should require from a workman the evidence of age through some specified documents, and the date of birth should be finalised and recorded within three months of appointment. The initial dates of birth were, however, recorded and finalised on the basis of verbal declaration given by workmen. The said rules further provide that the date of birth once entered in the service card shall be sole evidence of age in relation to all matters pertaining to service including fixation of the date of retirement.

The Management, however, considered applications of 123 workmen who opted for the Voluntary Retirement Scheme between August, 1990 and June, 1993 and revised their dates of birth on the basis of Matriculation/School Leaving Certificate etc. produced by the Workmen/staff in terms of notice issued (July 1989) by the Management.

The irregular revision of the dates of birth resulted in an extra payment of ex-gratia amounting to Rs.50.76 lakhs.

The Ministry stated (January 1996) that the matter had been referred to CBI for indepth investigation and report. It may, however, be mentioned here that the Company decided to refer the case to CBI in March, 1995 whereas the initial audit observation was made in July 1994.

(ii) During the period from April 1990 to May 1991, the accumulated leave of 136 employees who retired under Voluntary Retirement Scheme was inflated by 39/45 days. The payment of cash value of such inflated leave in contravention of the terms and conditions of the Voluntary Retirement Scheme, had resulted in an extra payment of Rs.3.62 lakhs towards leave pay.

The Ministry stated (January 1997) that the matter is subjudice.

(iii) Gratuity as admissible under Payment of Gratuity Act, 1972 is limited upto sixteen and half a month's pay subject to maximum of Rs.50,000 upto April 1994. However, in the cases of some employees of Asansol Unit of the Company, who opted for Voluntary Retirement Scheme during the period between August 1990 and June 1993, there was an excess payment of Rs.1.87 lakhs towards gratuity. This overpayment occurred in the process of making payment of gratuity on the basis of revised period of services of those employees whose ages were rectified.

HEAVY ENGINEERING CORPORATION LIMITED

12.6 Loss due to inordinate delay in execution of order

In October 1989, the Company agreed to supply 3 types of Rolls to Bokaro Steel Plant/SAIL at the prices and with the delivery schedule indicated below:

	Pieces	Price per piece(Rs.)	Delivery schedule
1.Slabbing Mill horizontal Roll	10	22,59,533	6/90 to 11/90
2.HSM Roughing	10	14,67,350	8/90 to 12/90

stand 2-5 Work Roll			
3.Tandem/Skin pass Mill Work Roll	158	4,10,400	10 Nos per month from July 1990

Though the prices quoted were firm, these were amended as under:

	In May 1991 (Rs.)	In November 1991 (Rs.)
1.Slabbing Mill horizontal Roll	24,52,200	-
2.HSM Roughing stand 2-5 Work Roll (For balance 9 Nos)	16,61,300	-
3.Tandem/Skin pass Mill Work Roll	4,26,060	7,00,000

HEC, however, could not adhere to the agreed delivery schedule and completed the supplies only by August 1995 at the cost and realisation mentioned below against each.

	No.of pieces supplied	Average cost per piece	Realisation per piece
1.Slabbing Mill horizontal Roll	10	41.49 lakhs	24.52 lakhs
2.HSM Roughing Stand 2-5 work Roll	10	17.95 lakhs	1 Pc.@Rs.14.67 lakhs 9 Pcs @Rs.16.62 lakhs
3.Tandem/Skin pass Mill Work Roll	158	7.36 lakhs	28 Pcs @ Rs.3.55 lakhs 55 Pcs @ Rs.4.26 lakhs 75 Pcs.@ Rs.7.00 lakhs

Inordinate delay of more than 5 years in execution of the orders due to break down of furnaces & forging presses, abnormal time taken in repair of the machines as critical spares were not available, agitation by supervisory staff, delay in the development of forged rolls, heavy rejections of forging at machining stage,etc. led not only to the loss (Rs.532.01 lakhs) but also levy of liquidated damages (Rs.50.05 lakhs) by the customer resulting in a total loss of Rs.582.06 lakhs.

The Ministry in its reply (November 1995) has stated that inordinate delay had occurred due to reasons like

interruptions in power supply, occupation of 2650 T Press for other critical jobs which were beyond HEC's control. While it was not denied that there had been delay for reasons both internal and external but there had been no cash loss as the supply resulted in a contribution of over Rs. 421.70 lakhs.

The Ministry's reply is not tenable as it was found that neither there was any significant power interruption nor 2650 T Press was occupied for more than two months for crankshaft manufacturing. The amount of contribution of Rs.421.70 lakhs was also not based on actual realisation and actual costs incurred by the Company. Though, infact, the Company was able to get positive contribution in item No.2 (Rs.4.25 lakhs) and 3 (Rs.14.98 lakhs), it suffered a negative contribution in item No.1 (Rs.86.10 lakhs).Thus, there was a net negative contribution of Rs.66.87 lakhs based on actual cost and realisation.

HINDUSTAN CABLES LIMITED

12.7 Loss in execution of export orders

In July 1989, the Company received an order from the Telecommunication Authority of Singapore (STA) for supply of 185 LKM foam filled cables at FOB price of Rs.1.65 crores. In June 1990, the Company received another order from the STA for supply of 654 LKM similar cables at FOB price of Rs.8.29 crores.

The Company had no experience of supply of cables of similar specifications before. The Company was also not aware about the inspection technique to be followed by the STA at the Singapore Institute of Standard and Industrial Research (SISIR) for testing of the cables as per stipulation in the contract.

During manufacture of the cables, the Company faced

technical difficulties mainly relating to foam insulation, water penetration test, electrical characteristics etc. which posed problem in achieving 1000 meters standard length as per specification. As a result, the cables (184 LKM) against the first order were shipped between December 1989 and October 1990 involving delay ranging from two to forty weeks while supply in part (280 LKM) against the second order was made between June 1990 and November 1990 after delay of nine to twenty weeks. The STA deducted Rs.0.23 crore towards liquidated damages for the delay.

Out of 464 LKM cables supplied by the Company, 217 LKM was rejected by STA as it failed to meet water penetration test or bend test or both at SISIR. According to the Company this was due to different technique of test applied at SISIR. This plea was not accepted by the STA. The remaining cables (247 LKM) were accepted by the STA and they paid Rs.1.67 crores after encashment of performance bank guarantee (Rs.0.41 crore) and deductions for value of rejected cables,testing fees, labour cost, storage charges etc. (Rs.1.47 crores). STA terminated (April 1991) the second order for the remaining quantity.

The efforts to sell the rejected cables abroad having not materialised, the Company brought back (December 1991) the cables to India after incurring an expenditure of Rs.0.57 crore on account of freight, custom duty and insurance. This resulted in blocking of 529 LKM cables in inventory out of 776 LKM cables manufactured at a cost of Rs.14.46 crores for supply against the two orders. Out of this quantity, the Company sold (between December 1992 and March 1996) 269 LKM cables at a price of Rs.6.23 crores in the domestic market after reprocessing at an additional cost of Rs.1.40 crores and process loss of 33 LKM cables valued at Rs. 0.36 crore. The balance quantity of 227 LKM cables valued at Rs. 2.54 crores was lying in stock (March 1996). Thus, out of the total expenditure of Rs.16.83 crores, the Company could realise an amount of Rs.7.90 crores. The loss

in the deal till March 1996 stood at Rs. 6.39 crores against the expected profit of Rs.0.37 crore.

The Board of Directors of the Company observed (June 1991) the following deficiencies in the export orders:-

(i) The force majeure clause in the agency agreement was deficient, (ii) no irrevocable letter of credit was obtained from the client, (iii) there was deficient off-shore inspection clause in the agreement, (iv) products were offered for export before testing and acceptance by domestic customers, (v) meeting of specification in all respects was not ensured beforehand, (vi) payment of agency commission was not linked with realisation of full FOB value of the order. No responsibility has, however, been fixed for this loss to the Company.

The Ministry stated (February 1994), in reply to initial audit observation, that the main reasons for the setback were the Company's venture into the export market without the necessary experience to handle exports of such magnitude and high quality cables and its failure to settle the specific inspection technique in advance.

The matter was again referred to the Ministry in July 1995; their reply has not been received (January 1997).

HINDUSTAN PAPER CORPORATION LIMITED

12.8 Extra expenditure in repairing of a new transformer

In September 1983, the Company awarded to a firm (firm A-main contractor for the Plant) a contract for supply of indigenous equipment and components for its Caustic and Chlorine plant (C&C Plant) at Cachar. Accordingly against contractor's order, one 10 MVA Auto Rectifier Transformer (original cost - Rs.29.05 lakhs) was delivered (October,

1985) to the transporter by the manufacturer (firm 'B') for door delivery to the site of the Company. The said equipment was originally scheduled for commissioning on 1 August 1988 i.e. alongwith the C&C plant.

The equipment was delivered at the Company's site by rail in February 1988 after it was stored in the godown of the transporter at Guwahati for about two years (from December, 1985 to November, 1987). When the transformer was finally taken up for erection (October , 1990), extensive damages were noticed. According to the supplier (November 1990) damage was caused by improper handling of the transformer during transit or storage or erection and the cost of repair might be almost equal to that of a new transformer.

The Company had lodged (October, 1990) a claim under storage-cum-erection (SCE) policy with the insurer but it was turned down (September, 1991) on the grounds that the transformer was lying in Guwahati and at project site carelessly in an abandoned condition and that place of occurrence of damage, whether during transit or erection, could not be ascertained.

The Company placed (December 1991) a work order on another firm (Firm 'C') for repairing the transformer , which was completed at a cost of Rs.6.05 lakhs. The transformer was commissioned in March, 1992 but failed in May, 1992 after one and half months only.

Having failed to get the repair work done satisfactorily, the Company had to place a work order (July, 1992) on the said manufacturer for complete repair, testing and erection. The job was completed at a total cost of Rs.33.08 lakhs and the equipment finally commissioned in May 1993.

Although the requirement of the transformer was delayed due to delay in completion of project site, there was no proper arrangement for its safe and prolonged storage and

handling. Nor could it be substantiated as per SCE Policy that the equipment was sound on arrival after unloading at site. As a result, the Company had to incur an avoidable expenditure of Rs.39.13 lakhs to make the transformer fit for operation.

The Management stated (May, 1996) that precautionary measures to protect the transformer at transporter's godown and at site were taken and there was no scope of identifying time and place for occurrence of damage so as to counter the findings of the Insurer.

The above matter was reported to the Ministry in November 1996; their reply has not been received (January 1997).

MINING AND ALLIED MACHINERY CORPORATION LTD.

12.9 Avoidable expenditure on Air freight for import of bearings

The Company placed three purchase orders dated 13 March 1991, 9 April 1991 and 11 September 1992 on a Japanese firm for purchase of different quantities of bearings. Though the stipulation in the purchase orders was to ship the same in three to six months' time, the Company air-lifted the consignments of the above purchase orders in December 1991, May 1993 and June 1993 respectively on the plea of urgent requirements resulting in extra expenditure of Rs.12.84 lakhs. This was necessitated due to delay in opening of letter of credit which was stated to be on account of severe financial crunch.

As requirements of the purchase orders were known to the company in advance, timely opening of Letter of Credit(L/C) through effective cash management could have saved the Company of an avoidable expenditure of Rs.12.84 lakhs.

The Management's contention (April 1995), that the L/C

under reference could not be opened in time due to severe financial crunch, is not tenable as the company opened L/C in respect of other orders during that period. Moreover, it was not correct to place orders without ascertaining the availability of funds for the same. The Management's claim that the project had become critical and airlifting was necessary in order to complete the project was not borne out by facts because stores records revealed that the issue of bearings so airlifted took one to thirty four months. The Ministry had concurred (May 1995) with the views of the Management.

REHABILITATION CORPORATION OF INDIA LTD.

12.10 Irregularities in sub-leasing of land

The Company got 33 acres of land at Bon Hooghly, in 1989 from Govt. of West Bengal on leasehold basis for 99 years at a token premium of Re.1 per year. In terms of the lease deed the Company had no authority to grant transfer, convey or sub-let the leasehold property or create any sub-lease in the said plot of land or any portion thereof to any one without the consent of the State Government. The Board of Directors of the Company approved in its 163rd meeting (10 June 1988) the transfer of land to Central Warehousing Corporation (CWC) @ Rs.30,000 per Kottah as was agreed to by CWC, subject to the approval of the Administrative Ministry and consent of the Government of West Bengal, after verifying all legal points. Violating the terms of the lease agreement and ignoring the directives of the Board, the Company in November 1990 allotted 583.48 Kottahs of land adjacent to Bon Hooghly Industrial Estate to CWC on sub-lease terms for 97 years against receipt of a lumpsum amount of Rs.1,05,02,640 @ Rs.18000 per kottah without obtaining either the approval of the Administrative Ministry or the consent of Govt. of West Bengal. In January 1991, Refugee Relief and Rehabilitation Department of West Bengal Government raised objection on this sub-leasing of land

without the consent of the Government. Thereafter, in February 1991 the Company sought permission from the State Government for the above sub-leasing of land and obtained the same in April 1991, with the stipulation that 50 per cent of Rs.1.05 crores transacted with CWC would be made over to the State Government in 12 equal instalments. The proposal of sub-leasing of land to CWC was put up to the Board for ex-post facto approval in its 178th meeting held on 10th May 1991. The Board observed that the actual value of the land should be got assessed by the appropriate Govt. authority. Accordingly, value of the land at Bon-Hooghly Industrial Estate was got assessed by the Company and value per kottah was assessed at Rs.30,000. Thus, total value of sub-leased land came to Rs. 1,75,05,000. The Company lodged (May 1992) a claim with CWC for the balance amount of Rs.70,02,360, but the claim was not agreed to (September 1992) by CWC on the plea that the rate of Rs.18000 per kottah was confirmed by the CMD of the Company on 14 September 1989 and on that basis, payment of Rs.1.05 crores was made and possession taken on 30 November 1990.

While confirming the facts and figures (August 1996) the Management stated that "nothing is however available on record to show as to what were the circumstances that had prompted the Management to sub-lease land to CWC at a price much lower than what was approved by the Board at its 163rd meeting".

Thus, due to unilateral decision for sub-leasing of land without ascertaining the market price and without getting prior approval from the Board and permission from the State Government, the Company had to suffer a loss amounting to Rs.35,01,180 (50 per cent of Rs. 70.02 lakhs payable to the West Bengal Govt.)

The matter was referred to the Ministry in September 1996; their reply has not been received (January 1997).

12.11 Loss of revenue in production of tyres in anticipation of order

The Company had been producing rayon tyres of specific size for supply to the Defence Department since 1988-89 to meet their exclusive requirements. There was no agreement with the Defence Department for supply of such tyres and for which there was also no demand in the open market. Production of tyres in this manner in anticipation of orders from the Defence Department continued upto April 1991 although the Defence Department had switched over to the use of nylon tyres from rayon tyres in July 1990 and the Company was aware of it during second half of 1990. The Defence Department at the request of the Company (November 1990) purchased (February 1991) 5000 such tyres as a special case. They refused (October 1991) to purchase any further quantity as it was an obsolete product having no use in the department and also on the ground that there was no contractual binding on them for such purchase. They also observed that as a sick unit the Company should have avoided production of such tyre without securing firm supply order particularly when the specific size was not in use in the civil sector. In the circumstances and as these tailor-made tyres had no market and to avoid further deterioration in quality, the Company decided (March 1992) to dispose of 1606 such tyres then in stock. Only 62 tyres could be disposed off in the open market in May and June 1992 leaving a balance of 1544 tyres in stock. The Company sold these tyres (October 1995) to a private party at a net sale value of Rs. 4.25 lakhs for which the total cost was Rs.34.14 lakhs, resulting in a loss of Rs.29.89 lakhs.

Thus, the Company suffered a loss of Rs.29.89 lakhs due to failure in production planning.

The Management stated (June 1995) that an extra

production of 1544 tyres was made to take care of rejection probabilities taking into account the stringent standard requirement of the Defence Department. The Ministry endorsed (July 1996) the views of the Management.

The above contention of the Management is not acceptable as these tyres were produced in anticipation of orders from the Defence Department and not to make up rejections.

DEPARTMENT OF SMALL SCALE INDUSTRIES, AGRO AND RURAL INDUSTRIES

NATIONAL SMALL INDUSTRIES CORPORATION LIMITED

12.12 Loss in the import Of pig iron

The West Bengal Small Industries Corporation Limited(WBSIC) placed an order in August 1990 with the Company to supply atleast 5000 MT pig iron of Brazilian origin for consumption by the small scale industry units of West Bengal. However, the Company placed an order with a Turkish supplier in October 1990 for the import of 10,000 MT of pig iron of Turkish origin, including the demand for 5,000 MT of WBSIC without taking a firm commitment from the latter with regard to the origin and cost of the iron. Draft Survey Weight was decided to be the basis for invoicing of the iron at the load port. The foreign supplier shipped 9,999.25 MT of iron in January 1991 at a landed cost of Rs.621.31 lakhs(Rs.6,213.57 per MT). Full payment for this quantity was released against a letter of credit opened by the Company. However, draft survey report at the port of discharge in India indicated the weight to be 9,980 MT. On actual weighing, the iron was found to be only 9,777.830 MT indicating a huge shortage of 221.420 MT(landed cost

Rs.13.43 lakhs). The insurer rejected the claim of the Company for the short supply on the ground that the shortage was on account of two different methods of weighing adopted by the Company. The Company forfeited the bid money of Rs.1.85 lakhs of the supplier against the short supply.

In the meantime, WBSIC declined (November 1990) to purchase the pig iron from the Company on the ground that not only the pig iron was available to them from MMTC Limited at a much lower cost but the pig iron being imported by the Company was of Turkish origin (instead of indented one of Brazilian origin) which was not usable by the small scale units of West Bengal. Thus, 4,600.240 MT of pig iron had to be stored by the Company in a godown due to non-acceptance of the material by WBSIC. Out of this quantity, 4,382.12 MT was sold to other units between 1990-91 to 1995-96. Dust, weighing 70.625 MT generated during prolonged, storage could be sold at Rs.1500 per MT. Dust, weighing 67.015 MT (cost Rs.4.16 lakhs) was not having any saleable value. In addition, 35.900 MT (cost Rs.2.23 lakhs) of the iron was pilfered leaving a closing stock of 44.580 MT (cost Rs.2.77 lakhs) which was sold for Rs.2.90 lakhs. An expenditure of Rs.18.44 lakhs had to be incurred on godown rent and handling of the material.

The Management stated (January 1996) that increase in customs duty and offer of MMTC Limited to supply already imported pig iron at lower prices to WBSIC resulted in the latter backing out and the loss of Rs.13.43 lakhs towards shortage of 221.420 MT pig iron was inherent in the system and could not be avoided. The reply of the Management regarding shortage is not tenable in as much as though the shortages were significant, the Company had never investigated the reasons for the shortages after it had filed a claim against the insurer for the same and forfeited the bid money(Rs.1.85 lakhs) of the supplier against the said loss(Rs.13.43 lakhs). Further, failure of the Company to obtain a firm commitment from WBSIC, resulted not only in

extra payment of Rs.18.44 lakhs as godown rent and handling charges but also contributed to the other losses of Rs.9.72 lakhs on account of pilferage and dust formation resulting from prolonged storage.

Thus, apart from the said shortage, the Company's decision to import pig iron without getting firm commitment from WBSIC resulted in a loss of Rs.23.93 lakhs (after adjusting a nominal profit of Rs.4.23 lakhs in the sale of material).

The matter was referred to the Ministry in November 1995; their reply has not been received (January 1997).

CHAPTER 13

MINISTRY OF MINES

HINDUSTAN ZINC LIMITED

13.1.1 Avoidable blockage of funds

As per its approved marketing policy for the sale of silver, the Company had been supplying silver to Hindustan Photo Films Limited (Client) on a regular basis on 90 days' credit covered by irrevocable letters of credit. The 90 days' credit included interest free credit for 30 days but the balance 60 days carried interest at the cash credit rate paid by the Company to its Bankers. Due to financial difficulties,the client requested (February 1992) for supply of silver on 90 days' credit as earlier but without insisting on the letters of credit. The request was acceded to by the Company subject, however, to the sale proceeds together with interest thereon being paid strictly on the expiry of 90 days after supply.

Thereafter the Company made the following supplies to the client on credit till October 1992:

Date of supply	Value of silver (Rs.in lakhs)	Due date for payment
09.03.92	83.49	08.06.92
17.03.92	179.77	16.06.92
23.03.92	165.67	24.06.92
06.06.92	82.46	03.09.92
28.07.92	86.43	25.10.92
16.10.92	82.08	13.01.93
	679.90	

The client did not make payment for any of these supplies. The Company could at least have discontinued further supplies after 8 June 1992 noticing the client's failure to make payments by due date and also outstanding exposure of Rs.511.39 lakhs. The Company, however, still made further supplies worth Rs.168.51 lakhs and the overdues amounted to Rs.679.90 lakhs (excluding interest) by January 1993. In

July 1994, a payment of Rs.80 lakhs was, however, received against a proposal for releasing the overdue payments in instalments during June 1994 to February 1996. As of March 1996, a sum of Rs.994.63 lakhs (value of silver Rs.599.90 lakhs and interest of Rs. 394.73 lakhs calculated at 16%) was recoverable from the client. The Company had already made a provision towards bad and doubtful debts of Rs.599.88 lakhs, during the year 1994-95 while interest on overdue payments was not accounted for as income in view of uncertainty in realisation. It had also since lodged (April 1996) a claim with the Board for Industrial and Financial Reconstruction (BIFR) to which the client stands referred.

The Management stated (January 1997) that though the customer had delayed the payments at times in the past, it had never defaulted. Considering therefore, that it was a regular customer and also a Central Public Sector Undertaking, further supplies to it were not discontinued. The contention is hardly tenable since supplies were continued even after defaults. This was neither based on sound commercial principles nor was it in the interests of the Company.

Thus due to failure of the Company to follow its approved marketing policy by relaxing requirement of letter of credit for a client, whose financial position was worsening, its funds amounting Rs.599.90 lakhs (exclusive of interest) were blocked for over 4 years and the chances of its recovering the overdue amount in full were bleak (January 1997).

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

13.1.2 Injudicious diversion of zinc ash

In order to overcome the shortage of Zinc Calcine for the downstream units due to shutdown of Roaster-I of its unit at Debari, during October and November 1992, the

Company placed (October 1992) two Purchase Orders for 100 MTs each, on two private parties for the purchase of Zinc Ash, a substitute for Zinc Calcine. Though the Roaster-I of Debari Unit resumed production from 19th November 1992, the Company issued (26th November 1992) amendments to the above two Purchase Orders, duly increasing the quantity from 100 MTs to 500 MTs each and with the stipulation that the same had to be supplied within 45 days. The entire quantity i.e.200 MTs initially ordered on the above two parties had been received and consumed at Debari.

As the Roaster Plant of Debari was giving higher production, the Company requested (28th December 1992) the above parties to supply the balance quantity to its Unit at Vizag instead of to Debari. Accordingly, 348.279 MTs of Zinc Ash, valued at Rs. 51.65 lakhs was received in 4 monthly spells (January to May 1993) and the same was consumed by the Vizag Unit during February (246.808 MTs.), May (63.300 MTs) and June 1993 (38.171 MTs).

It was however observed, that during the period the Zinc Ash of 348 MTs was received and consumed, the Unit at Vizag was having a closing stock of Zinc Calcine which ranged from 620 MTs to 2333 MTs during January 1993 to June 1993. The Unit also opined in February 1993 that the stock of Calcine was sufficient without affecting the production. Thus, in view of the comfortable stock position of Zinc Calcine, the diversion of Zinc Ash to Vizag Unit lacked justification.

The Ministry stated in their reply (February 1996) that the inventory of Zinc Calcine of 337 MTs at Vizag Unit for December 1992 was hardly sufficient for 2-3 days and the Company opted to divert the reordered quantity of 800 MTs to Vizag, so as to maintain the operations at Vizag. When the Calcine availability improved, the Company advised (May 1993) the suppliers to suspend the supplies of Zinc Ash after the receipt of 348.279 MTs at Vizag. Thus the Company

gained by Rs. 16.22 lakhs by purchase of Zinc Ash for the Vizag Unit.

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

First, the actual production of Zinc Calcine and Zinc Ingots for the month of December 1992 was 6107 MTs and 2605 MTs, as against the monthly average capacities of 6800 MTs and 2500 MTs respectively. Further, the actual production of Calcine and Zinc Ingots ranged between 4106 MTs and 6784 MTs and 2454 MTs and 2825 MTs respectively, during January to June 1993. The reply of the Ministry that the Company gained Rs.16.22 lakhs by the purchase of Zinc Ash for Vizag Unit is incorrect because the Company would have gained Rs.39.33 lakhs by using own stock of Zinc Calcine. By using purchased Zinc Ash, the Company had foregone the additional profit of Rs.23.11 lakhs. Incidentally, the closing stock of Zinc Calcine was far more than the Zinc Ash consumed during February, May and June 1993 respectively.

Thus, the diversion of Zinc Ash to Vizag Unit, despite the comfortable stock position, lacked justification and resulted in the Company foregoing an additional gain of Rs.23.11 lakhs.

MINERAL EXPLORATION CORPORATION LIMITED

13.2 Avoidable extra expenditure on purchase of drills.

The Company invited tenders in May 1989 for the purchase of drills of various capacities. Though all the five offers received for diamond core drills with a drilling capacity of up to 900 metres were found to be technically suitable yet the Purchase Committee considered the offers of only two parties viz., firm 'K' for hydrostatic drills and firm 'V' for conventional drills as the Company had no previous experience of the drills manufactured by the other

bidders.

The Purchase Committee recommended (January 1990) the purchase of five hydrostatic drills from firm 'K' at Rs.59.13 lakhs (inclusive of taxes) per drill and 7 conventional drills (Rs.8.50 lakhs per drill) from firm 'V'. The recommendation for the hydrostatic drills was on the plea that these drills were expected to give a minimum of 50% higher production as compared to conventional skid-mounted drills for drilling rated capacity boreholes.

The Director (Finance) of the Company did not agree (January 1990) to the proposal for purchase of hydrostatic drills due to low productivity of hydrostatic drills purchased earlier and also unfavourable cost benefit analysis reflected in higher operating cost per meter. However, the Chairman cum Managing Director, though not empowered by the delegation of authority in his favour, approved (February 1990) the purchase of 3 hydrostatic drills,despite unfavourable results of the cost benefit analysis of hydrostatic drills.

The purchase order was placed (February 1990) on firm 'K' for Rs.177.39 lakhs, while the cost of the same number of conventional drills including pump and truck etc., even on comparable basis was Rs.49.50 lakhs only as accepted by the Ministry (December 1996).

The performance /productivity of the hydrostatic drills commissioned in March 1990,May 1990 and June 1990 was in fact found to be much lower than the projections made in the purchase proposal. Against the expected average monthly productivity of 472 meters per drill,the actual productivity ranged between 43 and 248 meters, which was in no way better than the productivity of conventional drills. The operating cost of hydrostatic drills was also high at Rs.873 per meter as against Rs.807 per meter for conventional drill.

The Ministry stated (December 1996) that the average

monthly productivity of more than 472 meters per drill has since been achieved in coal project and 214 meters in non-coal projects. However, it was observed that average productivity for coal, non-coal was 496 meters and 132 meters respectively for the period from 1990-91 to 1992-93, while combined productivity was only 154 meters during the same period, which was much below the average combined productivity of 472 meters projected in purchase proposal.

The Ministry attributed (December 1996) the lower productivity of the hydrostatic drills to the Company's inability to meet the repair and maintenance requirements of these drills.

Thus, purchase of hydrostatic drills, even when the past experience and the results of their cost-benefit analysis were not found to be favourable, resulted in an avoidable extra expenditure of Rs.127.89 lakhs, in addition to the extra operating costs.

The issue of purchase of hydrostatic drills as well as other drills was also under investigation (December 1996) by Central Bureau of Investigation, Nagpur Branch.

NATIONAL ALUMINIUM COMPANY LIMITED

13.3 Avoidable payment of demurrage

The Railways placed 27 Box Wagons on 16 May 1994 as indented by the Company on 18 April 1994 for despatch of Aluminum Ingot to Shalimar (Calcutta) for export through Calcutta. The wagons remained in the custody of the Company from 16 May 1994 to 15 June 1994 when the Company cancelled the indent due to non-availability of export grade material. The rakes returned empty for which the Company had to pay demurrage of Rs.16.41 lakhs.

Similarly, the Railways placed 29 Box Wagons on 21 May 1994 as indented by the Company on 20 May 1994 for the same purpose of despatch of Aluminum Ingot to Vizag for ultimate

export. For want of exportable quality metal in sufficient quantity and technical problems in the pot lines, loading of the material took 608 hours against 10 hours' free time allowed by the Railways. As a result, the Company had to pay demurrage of Rs.13.51 lakhs.

Thus, as a result of placement of indent for rakes without ascertaining the availability of material for despatch, the Company had to pay demurrage charges amounting to Rs.29.92 lakhs.

The above matter was reported to the Ministry in July 1996; their reply has not been received (January 1997).

CHAPTER 14

MINISTRY OF PETROLEUM AND NATURAGAS

Bharat Petroleum Corporation Ltd.
Hindustan Petroleum Corporation Ltd. and
Indian Oil Corporation Ltd.

14.1 Supply of furnace oil at lower rate to an ineligible private firm

In order to ensure supply of furnace oil (FO) to 100 per cent Export Oriented Units (EOUs), at international price, Government of India in July 1993,instructed the three oil companies in the public sector, viz. Indian Oil Corporation Ltd. (IOCL) , Hindustan Petroleum Corporation Ltd. (HPCL), and Bharat Petroleum Corporation Ltd. (BPCL) to supply furnace oil for captive consumption of such units. The Oil Companies which had an exportable surplus were to charge a substituted price arrived at by adding to the landed cost price applicable duties, marketing margins and delivery charges from the nearest refinery instead of the ex-refinery price.This concession was also applicable to some other EOUs specified under paras 48 and 51 of Export and Import (Exim) Policy 1992-1997 and holding advance licences thereunder. The difference between the ex-refinery (retention) price and the price thus to be charged was recoverable from the Oil Pool Account. But in the event of there being no exportable surplus, furnace oil was to be imported by IOCL on behalf of 100 per cent EOUs/advance licence holders and recover from the beneficiary units actual landed cost plus applicable duties, delivery charges and margins, etc. In the latter situation, no adjustment was permissible in the Oil Pool Account.

Even though Furnace Oil was not in exportable surplus from May 1994 onwards, the three public sector oil companies viz IOCL, HPCL, and BPCL on being approached (October 1994) by a private sector company (firm) which was not an eligible

EOU, supplied furnace oil against various Advance Release Orders (AROs), between October 1994 and March 1995, at provisional international prices (ranging between Rs.3650 and Rs.4100) whereas, the applicable administered price of furnace oil was Rs.4535.28 per Kl. On this irregularity having been brought to its notice, the Oil Coordination Committee (OCC) advised (December 1994) the oil companies not to claim the differential between the international price (Rs.3650/Kl) and ex-refinery price from the Oil Pool Account. Efforts made (February/March 1995) by the oil companies to recover the amount (Rs.1.70 crores) charged less from the firm failed as none of the debit notes raised against the firm was honoured by it.The firm took the plea that the supplies were made to it by the oil companies after accepting the AROs and knowing the full implications thereof. Thus, by supplying furnace oil to an ineligible firm at a lower price, oil companies have lost an aggregate revenue of Rs.1.70 crores.

Ministry stated (June 1996) that the oil companies had supplied furnace oil to the firm on a provisional price, and that efforts were being made by them to recover the balance amount from the firm. The position remained unchanged till January 1997.

ENGINEERS INDIA LTD.

14.2 Irregular payment to employees

As per provisions of the Payment of Bonus Act, 1965, only those employees whose emoluments did not exceed the limit prescribed in the Act, were eligible for payment of bonus upto the year 1994-95.

The Board of Directors of the Company approved (September 1992) the grant of ex-gratia of Rs.2880 each to all employees who were not eligible for bonus for the year 1991-92. Similar payments of ex-gratia for the years 1992-93

(@ Rs.3600 each) and 1993-94 (@ Rs.3840 each) were approved by the Board in September 1993 and October 1994 respectively. The amount of ex-gratia for 1993-94 was subsequently raised from Rs.3840 to Rs.6000 in October 1995. Further, the ex-gratia for 1994-95 was also approved at Rs.6000 each in October 1995. A total payment of Rs.554 lakhs was made on this account up to the year 1994-95.

In terms of Government of India, Department of Public Enterprises(DPE) instructions of August 1992, Public Sector Enterprises cannot make payment of bonus or ex-gratia, as the case may be, to employees who are not entitled to payment of bonus/ex-gratia under the provisions of Payment of Bonus Act on account of their wages/salaries exceeding the limit of Rs. 2500/ Rs.3500 per month, unless the amount was payable to them under an incentive scheme duly approved by the Government. As the Company had not obtained Government's approval to any scheme for payment of ex-gratia to its employees not covered for payment of Bonus under the Payment of Bonus Act, the payment of ex-gratia was irregular and in contravention of Government directives.

Both the Management and the Ministry contended in February 1996 that the Company being a MOU-signing Company was delegated with powers to formulate incentive schemes within the broad guidelines subject to overall ceiling of 32 per cent or 35 per cent of the wages under Bureau of Public Enterprises (now named as Department of Public Enterprises) guidelines dated 19 October 1988.

The contention of the Management/Ministry is not tenable in view of the BPE guidelines dated 24 June 1976, 19 October 1988 and further clarifications of 31 August 1992 and 10 January 1994, according to which the overall ceiling of 32 per cent or 35 per cent is not applicable to the employees and executives who are otherwise not entitled to statutory bonus and to whom ceiling of 12 per cent or 15 per cent would be applicable subject to approval of the Government to

this effect. Therefore, the total payment of Rs.554 lakhs (up to 1994-95) as ex-gratia to non-entitled staff was irregular and in contravention of the provisions of Payment of Bonus Act, 1965 and DPE guidelines.

GAS AUTHORITY OF INDIA LTD.

14.3 Avoidable payment to Contractors

The Company, in order to fulfill its contract with Maruti Udyog Limited for supply of gas at the latter's factory near Gurgaon (Haryana) by 1 March 1992, issued (5 August 1991 and 12 December 1991) two work orders followed by execution of contracts on 21 August 1991 and 20 January 1992: one with M/s PSL Holdings Pvt. Ltd. for coating the pipes and another with M/s Essar Constructions for laying 35 Km. pipeline from its site to factory site by 11.4.1992 or three and a half months from the date of issue of coated pipes, whichever was later.

Both the work orders were premature inasmuch as source of pipes itself had not been tied up at that stage.

Due to foreign exchange crunch being faced by the Country during the earlier part of 1991 the pipes could not be imported as per the past practice. Therefore, on 26 August 1991 an order was placed with the Steel Authority of India Limited (SAIL), on experimental basis, for supply of requisite number of pipes of 12.75" dia API Grade at the total cost of Rs.484.88 lakhs. As the pipes developed by SAIL did not meet the specification tests conducted by GAIL (on 26 September 1991, 10 October.1991 and 18 December 1991) delay occurred in effecting the supply. The pipes were ultimately arranged from a foreign supplier (except 5 KM which was from SAIL) and made available to the contractors from June 1992 onwards. The entire work was completed in January 1993.

Under the contracts executed for coating of pipes and laying down pipe line the contractors were not entitled to

any compensation for delay in supply of pipes for the initial period of 3 months. The contract for coating of pipes, however, stipulated that compensation of Rs.10,000 per day and maximum of Rs.3 lakhs was payable by the Company in case it failed to supply pipes to the contractor beyond 3 months of the due date of supply. In the case of contract for laying of pipeline, there was no such express stipulation for payment of compensation for similar delay. Since the Company failed in making available bare/coated pipes to the respective contractors in accordance with the time schedule given in the contracts, it had to pay extra contractual compensation not only to the contractor for coating of pipes (Rs.3 lakhs as per contract) but also to the contractor for laying of pipeline (Rs.30 lakhs after negotiations) on the ground that machinery and manpower of the contractors were lying idle.

The Ministry stated in March 1996 that against the order placed in September 1991 delivery of pipes from SAIL was due in February 1992. Hence, it was expected that coated pipes would be made available to the contractors by the end of February 1992. The fact, however, remains that the Company incurred extra expenditure of Rs.33 lakhs by entering into contracts for coating and laying of line pipes even before orders could be placed by it for pipes of appropriate quality.

HINDUSTAN PETROLEUM CORPORATION LIMITED

14.4.1 Avoidable payment of minimum demand charges

The Bombay Refinery of the Company (HPCL) was formed by amalgamating ESSO Standard Refining Company of India Limited (presently known as Fuel Refinery) and Lube India Limited (presently known as Lube Refinery) in 1974.

The electrical energy requirements of the above two companies before amalgamation were met under two separate

contracts entered into with Tata Electric Company (TEC) and it continued to be the same even after amalgamation. The contracted demand was 21,112 KVA for the fuel refinery and 21,024 KVA for the lube refinery. As per the agreement with TEC, minimum demand charges of 75 per cent of the highest KVA of electricity consumed during the immediately preceding eleven months or 50 per cent of the contracted demand, whichever was higher, was payable by HPCL.

In order to have uninterrupted power supply, HPCL commissioned its own co-generation power plant (CPP) in June 1989, which meets approximately two-thirds of the power requirement of the Bombay Refinery. The generation of electricity from CPP stabilised in February 1990. Consequently, the consumption of purchased power came down to about 40 per cent of the contracted demand. Given the terms of payment of minimum demand charges i.e. 50 per cent of contracted demand or 75 per cent of the highest KVA of electricity consumed during the preceding 11 months, whichever was higher, combining of the two contracted demands into single demand after the stabilisation of operations of CPP would have been beneficial to the Company. However, the Company approached the Government of Maharashtra, the approving authority, only in February 1991 for combining the separate demands of the two refineries into a single demand for 42136 KVA. The permission for combining the loads was granted by the Government of Maharashtra two years later i.e. on 26 February 1993 after obtaining no objection certificate(NOC) from TEC (February 1993). The Company till then continued to pay the minimum demand charges for both the connections separately as stipulated in respective agreements.

The delay on the part of the HPCL Management in getting the permission from the concerned authorities for combining the loads resulted in an avoidable payment of Rs.68.30 lakhs from February 1990 to February 1993.

The Ministry, inter alia, stated (September 1994):

i) The total operations of the captive power plant were stabilised by February 1990 and, pending stabilisation, refinery could not take any action to reduce the contracted demand.

ii) Immediately on stabilisation of operations, action was started to reduce the minimum demand charges payable to TEC.

iii) TEC agreed for combining of the demand charges for fuel and lube refineries without any change in the electrical system, provided HPCL obtained the permission of Government of Maharashtra.

The Ministry's reply is not tenable as combining of the two demands without any reduction in the overall contracted demand did not require the stabilisation of CPP. The proposal for combining the two demands was sent to the Government of Maharashtra only in February 1991 i.e. one year after the stabilisation and it took two more years to get the final clearance. HPCL should have approached the appropriate authorities sufficiently in advance so that the combining of the two loads took place alongwith the commissioning of the CPP, if not earlier, as they were aware that with the stabilisation of CPP, the requirement of power to be met from TEC supply would come down and combining of the two demand would be beneficial.

14.4.2 Loss of revenue

During the financial year 1993-94, Central Excise Duty (ED) on Naphtha to be supplied to petrochemical units, was chargeable at a concessional rate of duty of Rs.66 per MT. The Company sold 5,452.527 MT of Naphtha between April 1993 and February 1994 to a private petrochemical Unit (Customer) at Visakhapatnam and allowed, in addition to permissible concession in the rate of excise duty(ED), concession in the Basic Price itself which was applicable only to fertilizers Units. This resulted in short realisation of sale value to the extent of Rs.135.58 lakhs. The Company's

efforts to secure recompensation from the customer in respect of the amount short billed (Rs.135.58 lakhs) have not yielded result. The Customer has expressed its helplessness (July 1995) on the ground that owing to demand being made very late it would not be possible for it to recover the short billed amounts from its own customers. This virtual loss is a direct consequence of negligence on the part of the Company. No responsibility has been fixed so far for the loss.

The Management in their reply (May 1996) stated that the Company has decided to refer the matter to arbitration.

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

OIL INDIA LTD.

14.5 Loss on interest earning

A reference is invited to para 13.8 of the Report of the Comptroller & Auditor General of India Union Government No 3 of 1994 (Commercial) wherein it was reported that the Company had invested Rs.173 crores with Syndicate Bank (Bank) during the period 1989-92 in contravention of the instructions of the Government of India.

It was further noticed that the indicative rate of return mentioned by the Bank in its quotation was 17.5 per cent to 19.25 per cent p.a. But the Company was offered by the Bank (July 1993) interest only @ 12 per cent p.a. upto 31 March 1993 and 11 per cent p.a. thereafter on the principal amount of investments totalling Rs.70 crores. Initially, the Company did not accept the interest at these rates and after protracted correspondence the matter went (May 1994) before the Committee of Secretaries on Disputes whose advice (July 1995) to both the parties for settling the matter amicably was ignored by the Company.

The offer reiterated by the Bank in September 1995 was

accepted by the Company in March 1996 i.e. after a time lag of more than 6 months. The Company received the payment of Rs. *14.34 crores on 21 March 1996. Had the Company accepted the Bank's offer even in September 1995 it could have earned Rs.45.77 lakhs as additional interest as per rates at which interest was earned by the Company on its other investments during the period from 1 October 1995 to 20 October 1996

The matter was referred to the Ministry in October 1996; their reply has not been received (January 1997).

OIL AND NATURAL GAS CORPORATION LIMITED

14.6.1 Non-realisation of arbitration award

ONGC filed (July 1983) a petition in Calcutta High Court against non-delivery of materials valued at Rs. 156.93 lakhs by a firm of clearing agents against 95 out of 627 bills of landing (B/Ls) handed over to the firm between September 1980 and February 1983. Clearing agents too sued ONGC for non-settlement of their bills. The Court ordered (February 1984) that the clearing agents would deliver the materials against security deposit of Rs. 25 lakhs by ONGC with Registrar, Calcutta High Court pending settlement of dispute through arbitration. ONGC paid the security deposit of Rs.25 lakhs in March 1984. But the clearing agents did not honour their part of the deal. The goods (valuing Rs.156.93 lakhs) thus remained undelivered. ONGC filed (August 1986) before the Arbitrator 15 claims aggregating Rs.529.55 lakhs on various counts including non-delivery of these goods. The clearing agents filed with the Arbitrator counter-claim for Rs.76.51 lakhs on account of non-payment

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* Rs.12.68 crores + Rs.1.66 crores as interest at the rate of 6 per cent per annum on Rs.12.68 crores from 15 January 1994 to 20 March 1996.

of their bills (Rs. 45.68 lakhs) by ONGC and interest thereon @ 18 per cent (Rs.30.83 lakhs). The arbitrator gave (June 1987) two separate awards, one allowing only one claim of ONGC for Rs.159.51 lakhs plus interest at 18 per cent per annum and the other rejecting the claim of the clearing agents.

The copies of both the awards were filed by the Arbitrator in the Calcutta High Court in June 1987. ONGC, as the interested party, took no action for seven long years to get the award converted into a rule of the court and to obtain a decree in its favour. The basic step of filing the warrant for issuing a notice mandatory under section 14(2) of the Arbitration Act and calling upon the other party to object to the award given by the Arbitrator within a period of 30 days (failing which it would become a rule of the court) was taken by ONGC in as late as August 1994. Though the notice has been reportedly issued (March 1995) by the court, ONGC could not obtain a decree in its favour (on the award) so far (January 1997). Meanwhile, the security of Rs.25 lakhs has remained in deposit with the court since March 1984.

The Ministry endorsed (January 1996) ONGC's response which stated, inter alia, that it was not advisable to press for a decree in terms of award because the clearing agents had challenged the award on the grounds of its being a non-speaking award. Reply of the Management lacks conviction as the mere fact that arbitrator's award had been challenged by the clearing agents should not have prevented ONGC in moving faster in the matter and obtaining a decree from the court for giving effect to the arbitration award.

Inaction of ONGC has resulted in direct pecuniary loss on account of non-receipt of imported material worth Rs.159.51 lakh from the clearing agents, apart from an unquantifiable loss of opportunity.

14.6.2 Release of payment against defective supplies

Oil and Natural Gas Corporation Limited (ONGC) placed (March, 1991) a purchase order on a New Delhi firm for supply of one mud logging unit at a cost of Rs.34.40 lakhs. The equipment was to be inspected by ONGC at the firm's premises in Bombay and 90 per cent of the order value was to be released against despatch documents after satisfactory inspection and assessment of its performance. Balance 10 per cent was to be paid within 30 days after receipt of material in satisfactory condition.

Inspection of the equipment at the supplier's premises on 29 May, 1991 revealed a number of deviations from the prescribed specifications. As per the report of the Inspection Team, the deviations pointed out in the equipment were to be attended to for rectification by the firm before its installation and commissioning whereafter a further inspection would be conducted.The supplier was informed (30 May 1991) accordingly. To prove its performance, the equipment was shifted (3 June 1991) to one of the offshore rigs of ONGC at the request of the suppliers who did not have any simulation arrangement in their premises.

But before the final inspection of the equipment on the rig could be carried out, the Group General Manager(E) approved (June, 1991) the proposal initiated by General Manager (F&A) to release 80 per cent (Rs. 27.52 lakhs) of the value of the equipment; the balance of 20 per cent was retained towards cost of the deficiencies as a measure to induce the supplier to take expeditious action to rectify the equipment. The firm was paid a net amount of Rs.23.39 lakhs on 20 June 1991 after deducting Rs.1.72 lakhs towards liquidated damages, Rs.1.03 lakhs for non- furnishing of proof for packing and forwarding charges and Rs.1.38 lakhs for non-submission of sales tax registration number. The final inspection on 12 September 1991 revealed that the

equipment was still defective. The firm failed to rectify the defects and make the equipment operatable during the next four years (November 1995). The equipment has been lying idle in the Stores of ONGC without being taken to stock. ONGC was able to recover (September/October 1992) only a sum of Rs.18.39 lakhs from the supplier against dues of Rs.33.45 lakhs (including interest at 22 per cent till 30 November, 1995). In fact, no amount was recovered from the supplier after October 1992.It is, thus, evident that the payment authorised by group General Manager(E) was contrary to the provisions of the supply order and the resultant loss to the Company could have been avoided.

The Management, whose views were endorsed (November 1995) by the Ministry, stated that payment to the extent of 80 per cent of the equipment cost was released to the party as the equipment had already been delivered and the payment was thus secured. The Management further stated that as the supplier has not responded favourably despite repeated reminders, action was being taken to dispose of the equipment and recover the balance amount of dues.

The reply of the Management is not acceptable as the equipment supplied was not according to the specifications and was deficient in many ways and, as such,it did not constitute a valid security for the advance payment made. Failure to safeguard the interests of ONGC resulted in blocking up of funds to the extent of Rs.5.00 lakhs and interest burden of Rs.10.06 lakhs.

14.6.3 Avoidable extra expenditure in awarding contracts for work over rigs.

The Western Regional Business Center (WRBC) of the company floated (December 1990) a tender inquiry for hiring of five work over rigs for servicing of oil and gas wells, which included liquidation of sick wells, up to a maximum

depth of 2,000 meters. The tender envisaged hiring of rigs for a period of one year extendable by another year. But, during the course of negotiations, WRBC projected need for hiring rigs for a period of two years. Accordingly, both the bidders who had responded to the tender confirmed in writing their willingness to keep rates firm for a period of 2 years without any change in the terms and conditions. The resultant proposal of WRBC backed by the recommendation of local tender committee as well as Regional Director did not, however, find favour with the Corporate Office which directed WRBC to negotiate the contract on the basis of operative period as indicated in the tender.

On fresh negotiations, ONGC agreed to a reconditioned agreement by virtue of which bidders would hire out rigs for the second year on mutually agreed rates but on similar terms and conditions. Contracts for charter hire of four rigs to one bidder and one rig to another @ Rs.75,407.95 per rig per day were awarded (May 1991) for a period of one year with the provision for extension for one more year at mutually agreed rates without any change in other terms and conditions. Both the firms mobilised four rigs for the first year.

The contracts awarded, as per mutual agreement, expired in May 1992. ONGC extended (May 1992) the contracts for another year at higher rate of Rs. 79,177 per rig per day. The decision of the ONGC corporate office to reject the offer of firm rates for two years from the bidders resulted in an avoidable extra expenditure of Rs.53.78 lakhs on hiring 4 rigs at higher day rate for the extended period from May 1992 to May 1993.

ONGC Management have justified their action on two counts: (a) that they were hopeful of getting the competitive rates in international competitive bidding (ICB) which was stated to be in process and thought it expedient to award the contract for only one year, (b) that actual

increase of 5 per cent in the day rates in second year was due to devaluation of rupee from Rs. 18.75 to Rs.26 an US $, increase in input cost, and inflation.

The Ministry have endorsed (April 1996) this reply. The fact, however, is that while ICB tender was floated only in June 1991, the decision to limit contract period initially to one year was taken earlier i.e in February 1991. Moreover, while quoting(February 1991) firm rates for two years, both the bidders had categorically offered to reduce their rates if effective rates received in the subsequent ICB tender were lower. Also, Government of India guidelines preclude cognizance of foreign exchange fluctuations in payments to Indian bidders, a fact brought to the notice of and accepted by the bidders before the award of contract. The other reasons such as increase in input cost and inflation would not have arisen if ONGC had finalised contract at firm rates for a two year period. In view of these facts, the reply is not tenable.

14.6.4 Undue benefit to a private contractor against the terms of the contract

The practice of mud logging tries to identify, record and/or evaluate lithology (i.e. the nature of rock or rock formation, described in terms of its composition, colour, texture and structure), drilling parameters and 'hydrocarbon shows'. The information obtained on mud logging is presented in the form of various logs such as the driller's log, the cuttings log or slow evaluation log. This information is correlated with data from other wells to determine whether the well may be able to produce hydrocarbon in commercial quantities. In addition, it enables monitoring of the wellbore for stability to prevent blowouts or kicks to ensure that the information is relayed to the right people at the right time.

ONGC awarded contracts to five parties for charter hire of 12 mud logging units and related services, after obtaining the approval of the Steering Committee and the Government of India. The contract of May 1989 with Eastern Circuits Limited was for three units for operation in Western Region. The contract provided for separate daily rates for equipment rental and for personnel. The logging units were commissioned between March 1991 and May 1991 against the contractual commissioning of July 1989. Though there were delays ranging from 83 to 96 weeks in commissioning, liquidated damages were waived on the ground that there was no loss.

The units did not perform upto 100 per cent efficiency as required under the contract since inception. The data collected were not upto the mark and could not, therefore, be utilised for any fruitful purpose. The contract did not provide for payment for efficiency below 100 per cent. Vice-Chairman & Member(Exploration), therefore, constituted a committee in December 1991, to find a workable solution and to suggest certain efficiency criteria for payment of rental charges for various equipments. The Committee recommended prorata payment for efficiency above 70 per cent which was further raised to 80 per cent by Vice-Chairman & Member(Exploration) in March/May 1992.

Even after this efficiency limit was fixed, the contractor's efficiency ranged only between 65 and 72 per cent and, therefore, no payments could be released. In June 1992, proposal for reduction of efficiency limit from 80 per cent to 70 per cent was approved. The payments were then ordered to be released according to the revised efficiency limit. All three units of the contractor were de-hired between March and May, 1993.

Even though it was known in August 1991 that data collected by the mud logging units was deficient and could not be used to get the desired benefits and although it

became clear in March, 1992 that the efficiency was below the permitted level of 80 per cent, the contract was not discontinued at any of these stages. Instead, it was allowed to continue, forcing ONGC to accept an efficiency level of 70 per cent to accommodate the contractor against the revised terms of the contract. This resulted in undue benefit to the contractor. Further, as the award was originally cleared by the Steering Committee, the proposal for fixation of efficiency criteria at any level below 100 per cent should have also been got cleared by the Steering Committee.

In its response, Ministry stated in August 1994 that it could not offer any comments on the draft para as the files connected with the para were with CBI. Thereafter, no communication on the conclusion and result of investigation by CBI has been received from the Ministry so far (December 1996).

14.6.5 Delay in commissioning of equipment

Oil & Natural Gas Corporation Limited (ONGC) placed (October 1987) an order on Bharat Pumps and Compressors Ltd. (supplier) for the purchase of 16 sets of reciprocating plunger pumps alongwith equal number of variable frequency controllers (VFCs) at a cost of Rs.9.90 crores for replacing the existing diesel pumps, (whose operating cost was high) for pumping of crude oil into the pipeline. The VFCs were to be supplied by sub-vendors of the supplier. The stipulated month of delivery was March 1989. The sub-vendors supplied 13 sets of VFCs by December 1991. The main supplier could supply the pumps between May 1989 and June 1992.

Consequent to the above delay on the part of supplier and also due to ONGC's failure to keep ready the 66/11 KV sub-stations required for supply of power and for installation of VFC panels, commissioning of pumps and VFCs could not be done as per the time schedule (May 1990 and

January 1992) stipulated in the order.

The sub-stations were kept ready between March 1992 and August 1992 and the VFCs were erected between June 1992 and March 1993. Yet, none of the 13 VFCs and the related pumps costing over Rs.10 crores could be commissioned till April 1994. Only 6 VFCs with the related pumps were commissioned by the sub-vendors between June 1994 and May 1995 after an extra payment @ of Rs.35,000 per unit by ONGC outside the agreed price. The remaining VFCs and pumps have not been put to use so far (December 1996).

Management's reply (December 1995) endorsed by the Ministry in February 1996, attributed the delay in commissioning, inter alia, to (a) late receipt of pumps and VFCs, and (b) delay in completion of mechanical works. This reply is only a repetition of facts brought out above. Thus, ONGC's inability to enforce a single point responsibility on the supplier coupled with its own failure to synchronize the setting up of electrical sub-stations with the supply of VFCs and pumps led to delayed commissioning/non-commissioning of pumps and VFCs and thus rendered a large part of the expenditure on procurement of the equipment and construction of sub-stations unfruitful.

ONGC VIDESH LIMITED

14.7 Loss of interest earning

Government of India, Department of Public Enterprises(DPE) as a follow up of the recommendations of the Joint Parliamentary Committee had issued a set of guidelines on 14 December 1994 according to which Board of Directors of each PSU was expected to lay down a procedure for investment of surplus funds. Contrary to these instructions, the Board of Directors of the Company had not laid down any definite procedures for short term investment of surplus funds. The matter was first raised by the

Chairman of the Company on 29 March 1996 whereafter DPE guidelines were placed before the Board. The proposed procedure was, however, not got approved by the Board till 30 May 1996. Consequently, a sum of Rs.25 crores available to the Company from 1 May 1996, was left uninvested between 1 May 1996 to 13 June 1996. The amount was ultimately invested with IFCI on 14 June 1996 at the rate of 16 per cent per annum. Had immediate action been taken to get the investment procedure approved by the Board and advance action taken to call for quotations from potential borrowers (in anticipation of the Board approving the procedure) surplus funds, if invested with effect from 1 May 1996 itself, could have fetched an additional interest of Rs.48.22 lakhs for the period from 1 May 1996 to 13 June 1996. Moreover, delay in investing funds was compounded by omission in not calling for quotations from known Public Financial Institutions like LIC and ICICI. This necessitated reinvitation of tenders and consequential delay in investment of funds.

The Management, while admitting the delay, stated (November 1996) that as the Company had not earlier managed short term investments, it considered it more expedient to use ONGC as a channel for this purpose. However, as the Statutory Auditors objected to this arrangement, it was decided to discuss the matter in the Board.

The reply is not tenable as the situation has arisen due to the fact that instruction of the DPE dated 14 December 1994 was not placed before the Board well in time for evolving a suitable procedure in terms of this instruction for making short term investments.

The matter was referred to the Ministry in December 1996; their reply has not been received (January 1997).

CHAPTER 15

MINISTRY OF POWER

NATIONAL HYDROELECTRIC POWER CORPORATION LIMITED

15.1 Memorandum of Understanding with French Consortium for Dulhasti project

1. BACKGROUND

1.1 Mention was made in paragraph 5.2 of the Report of the Comptroller and Auditor General of India - Union Government- No. 5 (Commercial) of 1995 that the Company had entertained, at the instance of Government, two unsolicited offers including one from a French Consortium (FC) and that the execution of Dulhasti hydroelectric project was awarded by the National Hydroelectric Power Corporation Limited (Company) in September 1989 on turnkey basis to FC despite the observations (November 1988) of the Steering and Negotiating Committee appointed by the Government to the effect that "under no circumstances, the contract be awarded to FC as they would create controversies and disputes....... leading to arbitration, extra claims, higher costs and inordinate delays in the completion of the project". The Committee on Public Undertakings had, in their 51st Report, deprecated the manner in which the project had been handled. Government had expressed (October 1996) their inability to offer any reply thereto since the files relating to the project had already been seized by the Central Bureau of Investigation.

1.2 The contract was awarded on turnkey basis at a basic price of Yen 53060.637 million plus Rs. 1575.3 million to the FC comprising five firms, namely, CGEE Alsthom (CEGELEC - Yen 15627.952 million), Dumez Sogea Borie, itself a consortium of three firms (DSB - Yen 33904 million plus Rs. 1441.022 million), Societe D'Engineering Pour (SEITP - Yen 227.089 million plus Rs. 45.041 million), Coyne Et Bellier (COB - Yen 2487.932 million), and Comelex (Yen 812.933

million plus Rs. 89.245 million) all shouldering joint as well as several responsibility with CEGELEC acting as leader. The price did not include corporate income tax, personal income tax, customs duty and other related taxes/duties which were to be borne by the Company. The execution and commissioning of the project were to be completed in 57 months i.e. by July 1994.

1.3 Under the terms of the agreement civil works of the project were to be executed by DSB. As per the original schedule, excavation of upstream head race tunnel (7565 meters) was to be completed by February 1993 by using a Tunnel Boring Machine (TBM) procured by DSB. The TBM was commissioned in April 1991 and only 1200 metres of progress had been achieved till May 1992 against the original target of 5000 metres to be bored by then when further tunnelling work was suspended by DSB due to a major geological fault encountered in May 1992. Subsequently, DSB also suspended all the civil works and the related contractual obligations in August 1992 on grounds of militant activities in and around the project, claiming these to constitute a force-majeure event. The physical progress by that time was only 30 per cent in respect of main civil works. At the time of suspension of civil works, the Company had to recover Yen 8045.018 million plus Rs.297.755 million (equivalent to Rs.317.46 crores; Yen 1= Re 0.3576), representing unadjusted interest-free down payments made to members of the Consortium, including Yen 6780.96 million plus Rs.288.20 million from DSB (equivalent to Rs.271.30 crores).

1.4 The Company, however, did not take any action to terminate the contract with DSB or to invoke the bank guarantee covering the down payments. Further, as per the over-all agreement, the FC was under obligation to perform the entire work in a coordinated manner till its completion. The contract provided that the contractor shall, on the written orders of the Company, suspend the progress of the work or any part thereof for such time or times and

in such manner as the Company may consider necessary. However, the Company did not take any action to issue notice to CEGELEC, the leader of the consortium to stop all their off-shore and off-site activities in view of the unilateral stoppage of civil works by DSB.

1.5 The FC met the Company officials, Secretary (Power) and Cabinet Secretary between 17 September 1992 and 21 September 1992 on the issue of stoppage of civil works. FC stuck to their view that force majeure conditions prevailed at project site as a consequence of which they were unable to carry out their relative obligation under the contract. It was seen in audit that the Company did not raise the issue of suspension of off-shore activities of manufacturing of hydro and electro-mechanical equipment in France. The Company justified its decision of not issuing the notice of suspension on CEGELEC on the ground that it would entail compensations to CEGELEC, without examining the relevant provisions of the contract and the fact that work was stopped by DSB on its own. During the period from August 1992 to June 1993 i.e. after suspension of work and till shipment the Company kept on deputing its officers for training and for inspection of equipments.

The Ministry stated (April 1997) that it had been the endeavor of the Company and the Ministry to resolve the issue and get the works resumed through discussions and that the Ministry had also constituted a high level committee (HLC) to look into the entire matter. The Ministry also stated that any abrupt stoppage of manufacture activities of hydro and electro-mechanical equipment would only have delayed the subsequent resumption thereof. The reply of the Ministry is not sustainable as discussed in the succeeding paragraphs. [Para 1.7 and 3.2]

1.6 As per the contract with FC, release of certificate for shipment or storage by the Company was a pre-condition for receipt of progressive payments by the different members of

the Consortium from the financial institutions. It was observed in audit that the Company did not raise any objection on the request sent by CEGELEC for release of certificate of storage and payment within 21 days of its receipt as provided in the contract nor did it ask the bankers not to release the payments. CEGELEC took a payment of Yen 2130.388 million directly from the French financial institutions providing suppliers' credit without any authorisation from the Company. The Company had to accept this as a fait-accompli.

1.7 To clear the impasse created due to FC not agreeing to resume work, the Ministry of Power set up a High Level Committee (HLC). The HLC recommended (May 1993) signing of a fresh Memorandum of Understanding (MOU) as also the acceptance of certain financial claims of FC although it did not accept the contention of FC that the prevailing security situation amounted to force-majeure warranting stoppage of work. The FC still did not come forward to sign the MOU.

1.8 Pursuant to the observation made by the Prime Minister in a meeting in January 1994 to the effect that ".....We should find a way to make the best of a bad bargain as it is not good for bilateral relations to have this simmering", the Ministry provided certain guidelines to the Company for arriving at a settlement with the FC. The broad guidelines inter-alia were:

(i) the remaining civil contract can be executed acknowledging DSB's inability to work on site.

(ii) plant and machinery on site may be hired for completion of balance civil works after considering the technical aspects and relative financial cost of arranging for alternative.

(iii) commercial terms would have to be re-negotiated because in the original contract the commercial rates were higher on account of the full responsibility for execution of the project in a compact time frame being vested with the FC and in the revised scenario there would be dilution of the joint responsibility.

(iv) FC may be persuaded to give revised commercial terms

envisaging payments for the balance portion of the off-shore component in French Francs instead of Japanese Yen.

(v) Company may agree to take the equipment from CEGELEC but insist on performance guarantees as mere warranties would not be acceptable.

Finally, after obtaining clearance from the Ministry, the Company signed an MOU with the FC on 29.6.94 in Paris.

2. SALIENT FEATURES OF MOU

As per MOU, the contract for civil works with DSB was to be terminated and the remaining members of the FC were to continue with their existing scope of work. The salient features of the MOU involving financial implications were as under:-

2.1 Contract with DSB:

(i) The Company would take over the works along with all construction plant and machinery, spares, consumables etc. at book value as on August 1992 on "as is where is" basis. After adjustment of payments so becoming due to it against the advance payments of Yen 6780.946 million plus Rs. 288.20 million, DSB was to refund to the Company a net amount of FFr 50 million.

(ii) The Company would take over liabilities in respect of Indian taxes and duties amounting to Rs. 55.68 crores (as estimated by the Company), arising out of settlement.

2.2 Contract with CEGELEC and COMELEX:

(i) The Company would pay CEGELEC interest charges on delayed payments in respect of equipment stored in France at 8 per cent per annum upto the release of such payments.

(ii) The Company would pay to CEGELEC interest at 8 per cent per annum on the balance 10 per cent amount withheld and to be released on satisfactory commissioning of the equipment, restricted to 24 months upto July 1998.

(iii) The Company would pay to CEGELEC and COMELEX

the claim on account of insurance cover, bank guarantees and extended warranties limited to an additional period of 24 months.

The estimated liability as provided in the MOU was FFr 99.8 million.

2.3 Contract with COB and SEITP

(i) The Company would pay to COB and SEITP interest charges on delayed payments at 8 per cent per annum for the period of delay.

(ii) The Company would pay COB for vetting of the tender documents for execution of the balance civil works.

(iii) The Company would pay (FFr 5 million) compensation to COB and SEITP for extended time of completion of project by July 1998 and would also reimburse the expenses on account of lodging and boarding for the periodic visits of specialists after July 96 to July 98.

(iv) The Company would pay COB and SEITP (FFr 2.8 million plus Rs. 50 million) for negotiations of new civil works contract and verification of the invoices to be submitted by the civil contractors. These services were optional depending upon the requirements of the Company.

(v) Company would pay to COB (Yen 110 million) towards claims of additional design services due to geological conditions.

2.4 The amended contracts which were to be signed as per MOU before 31.7.94, were actually signed on 27.6.95 and became effective from 10.7.95.

3. IMPACT OF MOU

A scrutiny of MOU and the contracts with different members of the Consortium, the overall agreement with FC and other records of the Company revealed that the Company has suffered losses on the following counts:

3.1 Loss due to termination of contract with DSB

(i) Loss of interest on down payments

At the time of suspension of work by DSB in August 1992, the Company had to recover unadjusted down payments amounting to Rs.271.30 crores. The interest liability of the Company on this account during August 1992 to July 1995 at interest rates of 8.96% on the foreign currency portion and 18% on the Indian rupee portion, as charged by financial institutions, works out to Rs.80.74 crores. The Company should at least have obtained interest for the above period on the net final amount of FFr 50 million, due to it from DSB. Though, as per MOU the Company agreed to pay interest to different members of the FC on account of delay in release of payments, it could not get any interest on the amount of FFr 50 million which remained unadjusted with DSB from August 1992 to the date of refund in July 1995. The loss to the Company on this account works out to FFr 13.44 million.(Rs. 8.65 crores).

In reply, the Ministry has sought to underplay the interest liability by stating that the downpayments were financed not from out of market borrowings but from the grant and the soft treasury loan provided by the French Government and made available to the Company as (non-interest bearing) equity. The reply is not tenable as the Company had also availed of foreign commercial borrowings (equivalent to Rs. 276.84 crores) exceeding the down payments which would not otherwise have been drawn.

(ii) Acquisition of assets

(a) Though the Ministry advised the Company to take construction plant and machinery of DSB on hire for completion of balance civil works, the Company as per MOU took over from DSB all the construction plant and machinery at book value as on August 1992 on as is where is basis not necessarily required by it for the balance civil works. While some of the items could as well have been arranged by

it from its other projects and by the new contractors on their own, some items were not of any use to it at all. Further, whereas these imported equipment were appearing in the books of DSB in French Francs, the Company paid DSB in Yen without analysing the impact of exchange variations of the two currencies. The Company was not bound to make this payment in Yen as it was not a contractual obligation and the Ministry had also advised it to renegotiate the currency of payment even in respect of the contractual payments due to FC. Had the Company paid for the equipment in French Francs, it could have saved itself Rs.58.49 crores. It is relevant that the Company obtained the refund of FFr 50 million. due to it from DSB in FFr and not in Yen which could have cut down its losses by approximately Rs.12 crores (at the exchange rate of FFr 1= Yen 24.78 adopted by DSB for the transfer of plant and machinery).

The Ministry's contention (April 1997) that all the construction equipment taken over from DSB were indeed required by the Company, is not acceptable as even during negotiations, the Company had repeatedly stated that a part of the equipment was not infact required by it.

(b) The plant and machinery included one aircraft. The Board of Directors of the Company had advised (December 1995) the Company to dispose it off but it has not as yet been disposed off (March 1997) and the Company has been incurring an expenditure of Rs.54.39 lakhs per annum on its insurance (Rs. 7.13 lakhs) and towards interest (Rs.47.26 lakhs) . Besides, it has also spent Rs.34.99 lakhs towards maintenance of the aircraft upto December, 1996.

Further, although the DSB had declared its price as FFr 5 million at the time of its import, yet while handing it over to the Company, it intimated the purchase cost as FFr 7.603 million, without any documents in support of the increased price. The Company too acquired the aircraft along with the spares at the equivalent book value of Yen

147,067,450 plus Rs.27.6 lakhs as customs duty (total: Rs.5.54 crores) without verifying the invoice value. Thus, the acquisition of the aircraft, as well as its non-disposal, has resulted not only in blockage of Company's funds to the extent of Rs. 5.54 crores but also a recurring infructuous expenditure of over Rs.74.39 lakhs (approximately) per annum on its maintenance and insurance.

(c) The equipment also included the Tunnel Boring Machine and its spare parts acquired at a cost of Rs.44.11 crores (inclusive of customs duty of Rs.4.01 crores). The TBM with a diameter of 8.3 metres was designed specifically for this project and cannot be used by the Company anywhere else. It can be of use only to the contractors deployed for balance civil works on this project, for which tenders have been finalised only in March 1997. Though the Ministry stated (April 1997) that the TBM would be given to the new contractor, its usefulness would appear to be doubtful since it had proved to be "quite inappropriate for tunneling in the Himalayas" as per the Company's own reckoning. Further, the Company's investment of Rs.44.11 crores remains largely blocked from July 1995 to February 1997 during which period it could be utilised for boring the head race tunnel (total length: 10.6 Kms) for a nominal length of 380 metres.

(d) The plant and machinery also included damaged items valuing Rs.1.01 crores which were beyond repair and hence of no use to the Company.

(e) Again, while inviting tenders for the balance civil works, the Company had stipulated (April 1995) that it would be incumbent on the successful bidder to acquire the plant and machinery at specified fixed prices (equivalent to Rs. 271.83 crores, being the cost of acquisition to the Company). As admitted by the Company this has resulted in higher bid prices.

(f) The acquisition of the DSB assets which are yet to be disposed off/put to use has already resulted in an

avoidable interest cost to the Company of Rs. 39.37 crores, from August 1995 to November 1996.

(iii) Non-adjustment of payments in excess of physical progress

(a) The original contract with DSB provided for payment of Yen 5,427,991,890 plus Rs.242,760,600 towards establishment cost as per the bill of quantities(BOQ). The amount was firm and for the total work. However, as against the physical progress of only 30 per cent at the time of suspension of the work, the amount paid by the Company was Yen 3,821,306,291 plus Rs.170,909,469 i.e. Yen 2,192,908,724 plus Rs. 98,075,284 (Rs.88.23 crores) in excess of 30 per cent of the contract price. The excess payment was not adjusted in arriving at the settlement with DSB nor was there anything on record to indicate that the issue had even been taken up. The Company thus suffered a clear avoidable loss of Rs. 88.23 crores on this account.

(b) Against the lumpsum cost of Yen 2,190,257,282 and Rs.54,926,396 mentioned in the BOQ for operation, maintenance, servicing and all other running charges of all site-installations/plant and equipment during the construction period, the Company had paid Yen 1,686,498,030 and Rs.42,293,325. As per the BOQ, the payments on these counts were related to the construction period and should, as such, have been regulated according to the physical progress of civil works, which was only 30 per cent at the time of suspension of work. These excess payments too were not got adjusted while arriving at the settlement with DSB and the Company suffered a further loss of Rs.39.39 crores.

(c) As per the bill of quantities, DSB was to be paid Yen 224,466,306 and Rs. 62,440,504 for inland transportation of equipment and spare parts, from Indian harbour to site of work and back. The Company did not maintain any control while releasing payments to DSB. For inward transportation

alone DSB was paid Yen 203,052,220 and Rs. 56485553 which was almost equal to 90 per cent, instead of restricting the same to 50% for one way as the equipment had been taken over by the Company and were thus not required to be transported back by DSB. The over-payment made (Rs. 5.78 crores) was also not adjusted from the final bill of DSB.

Thus, the Company suffered a loss of Rs. 133.40 crores due to non-adjustment of the payments made by it over and above the amounts warranted by progress of works. This in turn was partly facilitated by the Company's failure to regulate the payments against lumpsum items with reference to physical progress of the works.

On non-adjustment of all the payments in excess of physical progress as referred to in sub-paragraphs (a), (b) and (c) above, the Ministry did not offer any comments except stating that MOU was an overall package settlement. The fact, however, remains that the MOU failed to take into account the legitimate claims of the Company.

(iv) Margin for liquidated damages

The original overall agreement with FC provided for liquidated damages (LD) of up to 5 per cent of the contract price for non-completion of contract in time or shortfall in generation. As DSB was allowed to get out of its contractual obligations without levy of LD, the Company should have obtained a suitable commensurate reduction in unit rates for the works paid for by it, which at 5 per cent of the unit rates works out to Rs. 29.70 crores. The Company could not obtain any concessions on this account in the MOU.

(v) Reimbursement of expenses incurred even after suspension of work

The Company has reimbursed an amount of Rs.1.45 crores as tax deducted at source in respect of staff working with DSB even after suspension of the work in August 1992.

The Ministry stated that the reimbursement by the Company was as per provisions of MOU, according to which DSB and the Company were to bear their respective liabilities until the rescission of the original agreement. The fact, however, remains that the Company was otherwise not liable to make this payment when the work had been abandoned by the contractor.

3.2 Non-enforcement of contractual provisions with remaining members of the Consortium

As mentioned in para 1.4, the Company did not give notice to CEGELEC, responsible for the supply of hydro and electro-mechanical equipment, to suspend the off-site works on the manufacturing of these equipment in the wake of suspension of civil works by DSB. Had this been done, the Company would have been in a better position to put pressure on DSB, through CEGELEC, to resume the work. It would also have improved its bargaining position in negotiations with FC. The result of the Company's failure has been that though the work of design and manufacturing of these equipment has been completed and the equipment transported to site, the civil works are at a standstill. The Company will have to store all these equipment till the completion of balance civil works (not earlier than the year 2001 as per the Company's own reckoning). In the meanwhile, it has been incurring an interest liability of Rs.45.07 crores per annum since July 1994, in addition to the storage charges, which could have been avoided. Further, though as per the MOU, the Company could get performance guarantee of the hydro and mechanical equipment from CEGELEC it had to pay a huge amount of Rs. 37.99 crores to the remaining members of the FC for extension of insurance cover and bank guarantees (Rs.11.20 crores), warranties (Rs.18.61 crores), and time for completion (Rs.8.18 crores) up to July 1998. Besides, the Company will have to again negotiate with them for further extension of time, warranties, insurance covers,

guarantees etc. beyond July 1998 and till completion of the project, thereby incurring a further additional liability. The liability on these counts for the current four year period of July 1994- July 1998 works out to Rs.37.99 crores.

3.3 Commitment charges on undrawn foreign credits

Due to suspension of work by DSB, the Company could not fully draw the foreign credits tied up by it for the project and had accordingly to incur an infructuous expenditure of Rs.15.50 crores (up to September 1996) towards commitment charges thereon.

3.4. Dilution of joint responsibility

While the original overall agreement with FC provided for each member of the Consortium shouldering joint as well as several responsibility, the concept of joint responsibility got considerably diluted after signing of the MOU with the remaining members of the Consortium. Still the Company could not obtain any rebate in the commercial rates which were higher in the original contract, as also observed (January 1994) by the Ministry, on account of full responsibility being vested with FC.

4. Present status of the Project

The time for completion of the balance work and the Project has been specified in the MOU as four years (July 1994 to July 1998). This is not likely to be achieved and the Company has reassessed (February 1997) the date of commissioning to be 2001. Here, it is relevant to mention that although the Company was well aware, in January 1994 itself, of the fact that DSB would not execute the civil works, it took more than one year to invite tenders (April 1995) for the balance civil works and awarded the contracts

a further two years thereafter in March 1997. Further, the availability of loans from foreign banks earmarked for civil works to new contractors, consequent on the withdrawal of DSB, is not certain and is still to be negotiated. In the meanwhile, the Company has been incurring an infructuous expenditure of Rs. 3.58 crores per annum as commitment charges thereon.

5. Conclusions

5.1 At the behest of the Ministry, the execution of the project was awarded to FC despite advice to the Company from the steering and negotiating committee appointed by the Government. The payment to DSB in line with the actual progress of work was not regulated not was any notice on leader of the Consortium served to stop the off-shore and off-site activities and invoke the bank guarantee against DSB. Even though the Ministry directed the negotiations leading up to the finalisation and approval of MOU, DSB the main defaulter was allowed to walk out of its contractual obligations without incurring any penalty and was, on the contrary, given substantial concessions and benefits.

5.2 The Company has also failed to get any real benefit out of the MOU, signed at a considerable cost to it. The work which remains at a standstill even more than four years after it was unilaterally stopped by DSB in August 1992 is yet to be resumed and the civil work has been awarded to a new contractor only in March 1997. This has raised the interest liability to a whopping Rs. 975.63 crores (1014 per cent of Rs. 96.20 crores envisaged at the time of award of the original contract). In the meanwhile, the estimated cost of the project has shot up from Rs. 1262.97 crores (at October 1988 prices) to Rs. 3559.77 crores (at November 1996 prices).

5.3 Besides, as a result of delays, cost of the project has increased from Rs. 3.24 crores per MW, as originally

envisaged, to Rs. 9.13 crores per MW as per the revised cost estimates. The selling rate of power generated will also increase from Re. 0.89 per unit originally envisaged to Rs. 4.72 per unit at bus bar. The Company, however, is left with no other option but to go ahead with the project, howsoever unviable, as it has already incurred a substantial expenditure of Rs. 1483 crores (December 1996).

The Ministry stated (April 1997) that the MOU was aimed inter-alia at early resumption of work and had also resulted in COFACE (French Export Credit Guarantee Agency) not pressing its claims against the Company. However, as can be seen, the objective of early resumption of work suspended as far back as in August 1992 had not been achieved and in accordance with the only legal advice obtained (December 1993) by the Company, it had already refused to entertain the claims of COFACE, there being no privity of contract between the two. Ministry also stated that had the MOU not been signed, the DSB would have asked for international arbitration and pressed for a claim of Rs.735.39 crores. Other members of the consortium too would have filed claims amounting to Rs.166.97 crores. However, the reply fails to take into account the legitimate claims of the Company as brought out in the preceding sub-paragraphs, as also its right to get the works executed at the risk and cost of the civil contractor. The fact also remains that as brought out in the preceding sub-paragraphs, the situation leading to the MOU was largely of Company's own creation, first by award of contract to FC and thereafter by its failure to serve notice on the leader of the consortium and to invoke the bank guarantees, etc.

NATIONAL THERMAL POWER CORPORATION LIMITED

15.2.1 Defective bid formulation

The National Thermal Power Corporation (Company) was awarded (January 1994) the contract for turnkey execution of

132 KV sub-stations for Awir and Hatta at Dubai by the Dubai Electricity and Water Authority (client) at a total cost of 448.11 lakh Dirhams (Dhs). The contract was inclusive of a package for the supply and supervision of erection, testing and commissioning of 60/90 MVA transformers at the two sub-stations. The tender documents required the tenderers to possess an approved quality management system (QMS) complying with ISO 9000 Series which would apply to all activities including contract management systems.

At the time of offering its bid, the Company, while calling for quotations from potential sub-contractors for execution of this package, did not confine itself to those possessing the requisite QMS and, instead, stipulated that firms not possessing this qualification should provide a detailed write-up indicating how they were implementing the requirements of ISO 9000. Seven firms quoted their rates; the lowest rate was that of firm 'C' of India at US $9,29,000 which was adopted by the Company as the estimated cost of the aforesaid package while formulating its bid. Firm 'C' was neither in possession of ISO 9000 Series certification nor could it obtain it before the award of the turnkey contract to the Company.

The client did not accept Firm 'C' as the supplier of transformers. Thereupon, the Company offered transformers of firm 'P' of Belgium on which the Company placed an order in May 1994 for a total contract value of US $ 11,00,336. This resulted in an extra expenditure of Rs.54.16 lakhs (US $ 1,71,336). The overall loss suffered by the Company in the execution of the turnkey contract was Rs.235.27 lakhs.

The Management stated (November 1996) that the Indian manufacturer was promoted by the Company in order to increase the foreign exchange inflow into the country and that the submission of any offer based on equipment of firm 'P' would have rendered the bid uncompetitive. However, the fact remains that the efforts of the Company proved to be

misplaced and against its own interests, and the plea that the equipment of firm 'P' would have rendered the bid uncompetitive is also not tenable as in any case there was no justification for the Company to formulate its bid on prices which were not in accordance with the requirement of contract.

Thus due to defective bid formulation, the Company had to incur an extra expenditure of Rs.54.16 lakhs, which significantly contributed to the overall loss suffered by it in the execution of the turnkey contract.

The matter was referred to the Ministry in December 1996; their reply has not been received (January 1997).

15.2.2 Extra expenditure due to improper estimation

The Company (NTPC) was awarded (January 1994) the turnkey contract for execution of 132 KV sub-stations for Awir and Hatta at Dubai by the Dubai Electricity and Water Authority (DEWA) at a total cost of 448.11 lakhs Dirhams(Dhs). The contract was inclusive of a package for the design, manufacture, supply, installation, testing and commissioning of air-conditioning and ventilation (A&V) system at the two sub-stations. In its bid offer of the turnkey contract, the Company had included a sum of Dhs.1,75,000 as the estimated cost of the aforesaid package. The estimate, in the absence of any quotations, was, however, not based on the prevailing market prices.

After the award of the contract the Project Manager of the Company at DEWA project, invited (August 1994) quotations for execution of the A&V package from six reputed local firms in Dubai to which only two firms responded and the lowest quotation was Dhs. 4,02,390. However, as the equipment offered was of a type and make different from that required by DEWA, the firm was asked to revise its offer which, after negotiations, was accepted (December 1994) at

Dhs 5,12,592 i.e. 193 per cent higher than estimated cost assumed by the Company while formulating its bid.

The lapse on the part of the Company in offering its bid without first ascertaining the prevailing market prices resulted in the Company having to bear an extra expenditure of Dhs 3,37,592 (Rs.29.03 lakhs), contributing significantly to the overall loss of Rs.235.27 lakhs upto March 1996 suffered by the Company in the execution of the turnkey contract.

The contention of the Management (November 1996) that a reasonable estimate had been made of the cost of the package at the time of submission of tender and the increase in cost was due to variations in size of the buildings is not tenable as the Company had itself acknowledged the fact of underestimation of the cost while processing (November 1994) the award of the contract for the A&V package.

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

CHAPTER 16

MINISTRY OF RAILWAYS

CONTAINER CORPORATION OF INDIA LIMITED

16.1 Avoidable extra interest liability

The Company approached the Industrial Finance Corporation of India Limited (IFCI) in September 1990 for the sanction of a foreign currency loan for the purchase of two Rubber Tyre Mounted Gantry cranes from Singapore. The loan of Singapore $ 5.187 million equivalent to Rs.534.17 lakhs (Rs.954.30 lakhs after the devaluation of Rupee) was sanctioned by IFCI in December 1990 and loan agreement was signed on 4th March 1991 which was subject to the condition that the Company would not be entitled to the benefit of prepayment of loan unless agreed to by the IFCI.

(i) A review of the records revealed that the Company had surplus funds which ranged from Rs.1993.19 lakhs to Rs.3296.90 lakhs during the period of 1990-91 to 1993-94 and, as such, within a year of taking the loan, the Company showed (April 1992) interest in its prepayment. Accordingly, it approached the IFCI but could elicit no response. In May 1994, the Government of India approved a scheme for prepayment of such loan up to April 1995. Even when IDBI brought this scheme to its notice in December 1994, the Company failed to avail itself of the opportunity and the deadline expired in April 1995.

This resulted in a situation where on one hand, the Company kept its surplus funds invested at lower rates of interest (7 to 11 per cent) , on the other hand it was paying much higher interest (23 to 26 per cent), on the IFCI

loan thereby incurring an avoidable extra expenditure of Rs.135.25 lakhs from November 1994 to January 1997.

The Ministry stated (November 1996) that the facility of prepayment could not be availed by the Company due to ongoing conflict with IFCI on the rate of interest charged by the latter (26 per cent) and that accepted by the Company (23 per cent) and the IFCI insisted that the Company should clear all the outstanding dues at the interest rate of 26 per cent before prepayment could be accepted. The contention is hardly tenable as the issue is yet to be resolved and considering the stakes of the Company, efforts could have been made to arrive at an interim arrangement at the least.

(ii) The first two instalments for repayment of principal due in August 1993 and November 1993 were paid by the Company only in February 1994 as a result of which extra interest of Rs.8.70 lakhs had to be paid. The Ministry attributed (November 1996) this to the schedule for the repayment of principal not being intimated by the IFCI in time. The reply is not tenable as it was clear from the amortization schedule itself, forming part of the agreement with IFCI, that the first instalment was due on 1st August 1993 and there was thus no need to wait for any further intimation from IFCI. The Company has, however, deducted this amount (Rs.8.70 lakhs) from the repayment amount due to IFCI on 1st February 1996, but without the concurrence of the latter .

Thus due to its failure to avail itself of the opportunity for prepayment of the loan, coupled with non-payment of first two instalments in time, the Company had to incur an avoidable extra interest liability of Rs.143.95 lakhs.

16.2 Extra expenditure due to payment at higher rates in violation of contract conditions

Contracts for earthwork and construction of minor bridges in 4 Reaches (No.6,10,11 and 12) of Kudal Zone were awarded by Konkan Railway Corporation Ltd. (KRCL-the Company) in July 1991 and August 1991. Clause 20(a) of special condition of contract of KRCL provided that contractor(s) shall not be entitled to any compensation for variation in quantities upto 25 per cent of the scheduled quantity and would be paid at the contract rate. In the case of earthwork, clause 40.2(b) of general condition of contract provided that the variation limit of 25 per cent shall apply to the gross quantity of earthwork (for cutting as well as for filling separately) and variation in the quantities of individual classification of soil shall not be subject to this limit.

During execution of works under the above contracts, quantities in respect of certain earthwork items exceeded 25 per cent of the scheduled quantity. In July 1993 M/s 'P' of Kudal requested KRCL for fixing a fresh rate for the quantity beyond 25 per cent of the scheduled quantity. The Company (Kudal Unit) did not agree (September 1993) for fresh rate on the ground that this work was governed by clause 20(a) of the contract and 25 per cent limit was applicable to the gross quantity of the work done. The matter was referred to Corporate Office (CO) in February 1994. The CO observed that this was a special case in which very large variations had taken place. In May 1994, the CO decided that negotiation of rate may be held with the concerned contractors for quantities executed beyond 150 per cent of the original contracted quantities of the individual items (viz. excavation in hard rock and construction of embankment with contractor's own earth where the variations were to the extent of 350 to 450 per cent). Payments to the

contractors at higher rates were approved by the CO in September 1994.

In this connection, the following observations are made:

i) Payment to contractors at higher rates for excess quantities beyond 150 per cent of the scheduled quantities of individual items was not in order since the gross quantities of cutting and filling were within the variation limit of 25 per cent prescribed in contract conditions. Further, there was no basis for fixing the variation limit of 150 per cent of the original contracted quantity.

ii) Railway Board's instructions of September 1978 stipulate that there should be much greater stress on proper estimation of quantities provided in tender schedule so as to bring better management control and to avoid guess work in rates and subsequent manipulation by Contractors and Engineering Officials.

iii) Payment at higher rates to two private contractors in violation of contract conditions has resulted in extra expenditure of Rs.168.91 lakhs.

The Management with the approval of Railway Board has stated (January 1997) that it was true that the contract conditions did stipulate vide clause 40.2(b) of general condition and clause 20(a) of the special condition of contract that variations upto 25 per cent of the quantities were payable at the same rates irrespective of variations in the classification. The Management also stated (December 1996) that a better approximation of quantities could have been obtained only by taking bore holes at a much shorter intervals.

The fact remains that the extra payment of Rs.168.91 lakhs could have been avoided by enforcing relevant clauses of the contract by applying variations on the gross quantity of earthwork (instead of individual items) and also by conducting adequate soil investigation.

CHAPTER 17

MINISTRY OF STEEL

HINDUSTAN STEELWORKS CONSTRUCTION LIMITED

17.1.1 Loss due to delay in execution of work

In April 1988, the Company(HSCL) was asked by Durgapur Steel Plant (the client) to undertake repairs of Blast Furnace No.3 pending issue of detailed work order. The formal work order valued at Rs.3.36 crores was issued in June 1988 with the stipulation to complete the job within 160 days from the date of handing over of work site.

The work included, inter-alia, mechanical maintenance work of category-I, repair of Blast Furnace as per drawings, specification and instructions, for which the Company invited limited tenders from six parties in April, 1988. The offer of Firm 'A' at Rs.69.45 lakhs was the lowest. However, the Company took more than 8 months to finalise the tender and in February 1989, the work was split up into two and awarded to Firm 'A' for Rs.45 lakhs and to a non-tendering Firm 'B' for Rs.22 lakhs. The action of the Management to place the order on a non-tendering firm who had not even quoted during the time of tendering has not only vitiated the normal commercial principle of tendering but also denied equal opportunities to the other parties who had quoted for the same job.

As per terms of Letter of Intent (LOI), work awarded to Firm 'A' and 'B' was to be completed by 30th April 1989 and 31st May 1989 respectively.

Although the Company as per the contract/work order with the client was liable to pay liquidated damages for delay in completion of the work, no such clause was incorporated by the Company in the L.O.I. issued to its Sub-contractors. On the contrary, a new clause (No.vii) was

inserted stipulating that if the work was extended beyond scheduled completion date due to no fault of contractor, the Company would consider payment limited to wages of the workers.

The work site was made available by the client to the Company on 1.8.1988 (i.e. from the date of shut down of Blast Furnace) requiring the work to be completed within 160 days i.e. by 9.1.1989.

However, the work was actually completed on 31.8.1989 causing a delay of about 8 months. Due to delay, the Company had to pay an additional amount of Rs.30.09 lakhs towards wages, incentives and other benefits for the contractors' workers employed beyond scheduled date of completion in terms of clause (No.vii) of the L.O.I. Further, the client also deducted an amount of Rs.26.65 lakhs from the bills of the Company as liquidated damages for delay in completion of work. No amount could, however, be recovered from the sub-contractors in absence of a suitable provision in the L.O.I. for levy of liquidated damages.

The claim of the Company for refund of liquidated damages of Rs.26.65 lakhs was rejected by the client on the ground of ineffective site management by the Company.

While getting post-facto approval, the Management itself termed it as an absolutely bad case on the ground that at each and every stage procedures had been violated and no norms had been observed while awarding the work. The Management also decided that the case needed thorough investigation and be handed over to Vigilance Department with the instruction to identify the individual responsibility for putting the Company at a loss.

The Ministry stated (March 1996) that delay of eight months in awarding work to sub-contractors was due to problems with workers' union. However, HSCL was being advised to be more vigilant to ensure that this did not occur in future.

Thus, violation of established procedures and norms while awarding the work and delay in execution of work resulted in a loss of Rs.56.74 lakhs to the Company which could not be recovered from the sub-contractors due to defective work order.

17.1.2 Avoidable expenditure due to delay in payment/ clearance from Port

In terms of a turnkey contract dated 13 October 1988 between HSCL and Durgapur Steel Plant (DSP), one set of Primary Gyratory Crusher was to be supplied by the Company to DSP for installation in Bolani Ore Mines Project for augmentation of its capacity under Modernisation Scheme of DSP. Accordingly, on 2 May 1990, the Company entered into a contract with a firm of Japan for import of one set of crusher at a FOB price of Japanese yen 1,54,000,000 under Japanese Debt Relief Grant Aid. For this purpose, Government of India authorised (July 1990) Bank of India, Tokyo Branch to make payment to the supplier on the basis of shipping documents. According to the authorisation letter, State Bank of India, Calcutta Branch was to deposit the rupee equivalent of the yen payment in Government account on receipt of documents from the Bank of India, Tokyo Branch. It was also stipulated that delayed payment in Government account would attract interest at the rate of 12 per cent per annum for the first 30 days and thereafter at the rate of 18 per cent per annum. As per terms of contract 10 per cent advance payment amounting to Rs.21.69 lakhs was paid in November 1990.

The crusher shipped by the supplier reached Calcutta port on 22 November 1991. But 90 per cent invoice value amounting to Rs.300.30 lakhs (including interest for delayed payment) was deposited in Government account by the Bank on 23 May 1992 after a delay of 177 days due to non-availability of fund and the consignment was cleared between

13 June 1992 and 22 June 1992. The delay on the part of the Company has resulted in payment of interest of Rs.25.40 lakhs and port rent of Rs.33.76 lakhs.

The Ministry stated (April 1996) that the payment of interest and the port rent could not be avoided due to fund constraint of the Company.

The reply is not tenable as arranging funds in time to clear the consignment was the responsibility of the Company.

17.1.3 Infructuous expenditure in payment of bank guarantee commission.

In March 1989, Steel Authority of India Limited, Durgapur Steel Plant (DSP) awarded the work of its modernisation to HSCL (the Company) at a cost of Rs.188.01 crores. The contract stipulated advance payment to the Company to the extent of 20 per cent of the contract value on furnishing a bank guarantee of equal amount. The Company furnished three bank guarantees amounting to Rs.37.60 crores between March and April 1989 against advance payment of the same amount. As per conditions of bank guarantee for down payment, pro-rata reduction of the guaranteed amount for the actual values of supplies and services rendered by the Company was envisaged on the basis of certification by the client(DSP) on a quarterly basis. However, the amounts of bank guarantees were not reduced on quarterly basis and the Company went on paying bank commission on the total amounts of the bank guarantees.

The amounts of bank guarantees were reduced only in August 1992, April 1993 and April 1994 by Rs.15.37 crores, Rs.2.48 crores and Rs.3.58 crores respectively instead of their reduction in each quarter. Finally, the bank guarantees as received from the client were sent back to the bank on 8 June 1996 for cancellation. Thus, due to non-reduction of the amounts of bank guarantees in each quarter

and payment of bank commission on the total amount of bank guarantees, the Company had to pay an avoidable commission to the extent of Rs.117.05 lakhs upto January 1995.

The Ministry stated (July 1994) that in view of the large scale variations in the contract, billing became an unworkable proposition. However, considering wide variations, the client (DSP) started releasing payments for the actual works executed on the basis of notional rates without insisting for billing schedule. These payments, however, were being considered by the client on an adhoc basis only. The Ministry added that since, in this case, the client had extended assistance to the Company beyond all contractual provisions for completion of works, it was difficult for the Company to create pressure on the client for operation of the clause.

The fact remains that due to inability to furnish billing schedule for the actual work done as per the terms of the bank guarantee, the Company suffered an avoidable loss of Rs.117.05 lakhs.

INDIAN IRON & STEEL COMPANY LIMITED

17.2 Payment of dead rent and property tax for idle plot of land

The Company was in possession of 12905.63 square meter of land as its stockyard in the Mazagon Sewri-Reclamation Estate and used it for disposal of steel items and occasionally for storage of spun pipes with effect from 3rd January 1972 under an agreement with the Board of Trustees of the Port of Bombay-Bombay Port Trust (BPT) on payment of monthly rent and half yearly property tax. Although the agreement was valid upto 31 October 1990, the Bombay Metropolitan Region Development Authority (BMRDA) notified the lessee in September 1986 to stop operation at the said

"S" plot with effect from 1 January 1987. Subsequently, the operation of the said plot was allowed to continue by BMRDA upto 31 March 1988.

Although the operation at the said plot stopped from 1 April 1988, the Management kept on waiting till expiry of lease upto October 1990 to take any positive step to handover the plot to BPT and submitted a proposal to the Board of Directors only in February 1991 to surrender the said plot. On the advice of the Board to explore the possibilities of utilising the plot for other purposes, Steel Authority of India Limited (SAIL) was contacted, who after inspection of the plot on 22 March 1991 met BPT authority in March 1991 and agreed to take over the plot with effect from 1 September 1991.

SAIL took over the plot from the Company ultimately with effect from 8 April 1993. However, the lease agreement of SAIL and BPT for the plot did not materialise. Subsequently, SAIL expressed the desire to surrender the plot from 31 December 1994 stating that they would not incur any liability towards the said plot of land after 31 December 1994. In June 1995, the Company again approached SAIL to reconsider their decision of not retaining the plot of land. However, SAIL informed (October 1995) that they had decided not to retain the plot. In the meantime, the Company had been referred to the Board for Industrial and Financial Reconstruction (BIFR) and it had become mandatory to obtain the approval of BIFR for surrender of the leased plot.

The Ministry stated (March 1995) that efforts were made by the Company to surrender the plot before expiry period but due to circumstances beyond their control and non-cooperation of BPT authorities, they could not do so. The Ministry added that the correct amount of total avoidable expenditure upto 8th April 1993 worked out to Rs.29.37 lakhs. The said plot was ultimately surrendered on 31 January 1996.

The fact remains that due to inordinate delay in

surrendering the plot, the Company had to incur unnecessary expenditure amounting to Rs.58.46 lakhs (Rs.28.95 lakhs lease rent, Rs.15.37 lakhs property tax and Rs.14.14 lakhs as electricity charges, insurance premium,wages etc.) upto 31 January 1996. However, the total amount includes an amount of Rs.20.62 lakhs claimed by IISCO from SAIL in February 1996 on account of expenditure incurred during 1 September 1991 to 31 January 1996 on maintenance of plot which could not be recovered so far (November 1996).

MSTC LIMITED

17.3 Loss due to supply of materials against invalid letter of credit

The Company entered (July 1988 to February 1989) into contracts for purchase of shredded scrap from foreign suppliers for the purpose of allotting (back to back arrangement) the same to its registered customers.

Firm 'A', one of the listed customers, was allotted (July 1988 to February 1989) 3161.15 tonnes of scrap valued at Rs.98.42 lakh against letter of credit, the validity of which had already expired. Though the invoices and sight drafts were accepted by the firm, the banker refused to pay as they were unable to obtain payment from the drawee. Subsequently, cheques worth Rs.29,12,694 deposited by the firm as part payment were also dishonoured by the bank.

Meanwhile, the firm became sick and was referred to BIFR (January 1990). They expressed their inability to pay the dues until their loan application before BIFR was sanctioned. The Company, however, lodged a claim with BIFR (February 1994) and filed a money suit (January 1994) which is still pending (November 1996).

The Management stated (November 1996) that despite their best efforts they could not get the amendment to the letter of credit in time and being a commercial organisation certain amount of such cases could not be ruled out.

Thus, the Company sustained a loss of Rs.98.42 lakhs due to allotment of materials against invalid letter of credit.

The Ministry stated (February 1997) that the matter was sub-judice.

NATIONAL MINERAL DEVELOPMENT CORPORATION LIMITED

17.4.1 Loss of Mining Rights

The Company carried out detailed exploration of the Malangtoli Iron Ore Deposit, a major deposit in the Bonai Range of Bihar-Orissa. The mineable reserve was estimated at 340 million tonnes. The total expenditure incurred by the Company on the exploration conducted during the years 1972-77, amounted to Rs.143 lakhs.

The Government of Orissa granted in May 1977 the Mining Lease, covering an area of 5226.03 hectares, subject to the condition that the Company was to complete the survey and demarcation within a period of 3 months from the date of Order and seek instructions of Government for execution of the lease.

However, due to the delay in completion of survey and demarcation by the Company, Government of Orissa issued an order in January 1981 to execute the Deed relating to the mining lease. Based on the request of the Company, extension of time upto October 1981 was granted for execution of the Lease Deed. Subsequently, however, the company decided not to execute the Lease in view of the following considerations:

-- absence of infrastructural support, including requirements for the transportation of the ore;

-- non-existence of market;

-- and blocking up of large sums of money in the form of cost of execution of Deed and Dead Rent payable every

year, over a long period.

After a lapse of ten years, the Government of Orissa revoked the Mining Lease granted, in January 1992. Following the revocation, the Company learnt of the steps initiated by the Orissa Mining Corporation, to obtain Mining Lease of the Deposit and to mine it in collaboration with a multinational mining company. The Company, however, filed in October, 1995 (after a delay of 44 months) before the Government of India, Ministry of Mines, a Revision Petition against the orders of revocation of the Government of Orissa alongwith a petition for condonation of delay in submission of a formal Revision Petition. No orders in this regard were, however, received from the Government of India (December 1996).

Thus, non-execution of the Mining Lease within the period stipulated resulted in:-

I. revocation of the Mining Lease for an area in which the detailed exploration conducted by the Company, estimated the mineable reserves at 340 million tonnes of iron ore; and

II. expenditure incurred to the extent of Rs.143 lakhs, towards investigation and exploration thereon being rendered infructuous.

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

(a) they had filed a Petition before the Mines Tribunal, seeking condonation of the delay in submission of a formal revision application and stay on the grant of mining lease to any other party;

(b) the reason for non-execution of the lease was due to lack of infrastructural facilities and market;

(c) the execution of lease deed would have resulted in blocking up of large sums of money in the form of cost of execution of Deed and Dead Rent payable every year, with no possibility of return in the foreseeable future, in view of which execution of the mining lease

was kept in abeyance and the Company decided to wait for an opportune time;

(d) as per the provisions of Section 11 of Mines and Minerals (Regulation and Development) Act, 1957, the Company being the first agency having completed detailed exploration, had the right to get the mining lease of the Deposit;

(e) there was a bright chance of succeeding in the Revision Petition filed by the Company; and

(f) even otherwise the party which would be given the Deposit on lease, shall be required to compensate fully to the extent of expenditure incurred by the Company.

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

(i) Appropriate action should have been taken to execute the mining lease, since the Company had established the estimated Mineable Reserves at 340 million tonnes, valued at Rs.10,251 crores in the Malangtoli Deposit, against which the approximate average annual expenditure would have been Rs.5.58 lakhs (towards Dead Rent payable till the year 1996).

(ii) Failure to execute the mining lease Deed, even within the extended period (October 1981) resulted in the revocation of the grant order by the Government of Orissa, in exercise of the powers conferred under Rule 31(1) of the Mineral Concession Rules, 1960.

(iii) The Company was not granted any Prospecting Licence by the Government of Orissa, under the provisions of Section 11 of Mines and Minerals (Regulation and Development) Act, 1957.

(iv) The Government of Orissa recommended to the Government of India, Ministry of Mines (July 1996) for rejection of the Revision Petition filed by the Company.

Thus, due to the failure in execution of the lease deed, within the stipulated period, the Company had lost the Malangtoli Iron Ore Deposit, containing 340 million tonnes,

valued at Rs.10,251 crores(approximately), besides rendering infructuous , the expenditure of Rs.143 lakhs incurred towards detailed investigation and exploration. Further, consequent upon the cancellation of the mining lease by the Government of Orissa in January 1992, Orissa Mining Corporation (OMC) was recommended to the Government of India for mining lease over the area since 16 July 1994. In the meantime, OMC entered into a joint venture with a multinational to develop the Iron Ore deposit in the above area at an estimated investment of Rs. 800 crores (approximately).

The matter was reported to the Ministry in October 1996; no reply has been furnished (January 1997).

17.4.2 Loss due to non-recovery of sales tax

Replenishment (REP) Licences issued in terms of the scheme envisaged under the Import-Export Regulations/Policy administered by the then Chief Controller of Imports and Exports, was with the objective of providing registered exporters by way of import replenishment, essential inputs required in the manufacture of the products exported. The exporters were also permitted to dispose of the surplus licences, if any, as per market premia.

The Company sold REP Licences to various importers, at a premium of Rs.1455.86 lakhs, during the years 1991-92 and 1992-93. The sale proceeds (Premium) received on the above sale of REP licences were, however, initially not considered as the Turnover of the Company and were assessed accordingly by the Sales Tax Authorities. However, based on a case law that had been decided in this regard in the High Court of Karnataka, the Commercial Tax Department, Government of Andhra Pradesh, re-assessed the turnover of the Company (February 1996) taking into account the premium earned during the year 1991-92 and 1992-93 and demanded that an amount of Rs.193.33 lakhs be paid towards Sales Tax.

The Company filed an appeal before the Sales Tax Appellate Tribunal against the above orders and also simultaneously filed a stay petition before the Additional Commissioner(CT) and Joint Commissioner (Legal). The stay petition was accepted on tax of Rs.93.33 lakhs subject to payment of Rs.100 lakhs by the Company by 27 March, 1996. The Company, thereafter, paid Rs.100 lakhs on 26 March, 1996 as Sales Tax. The case is pending decision (January 1997).

However, it was observed that the Company charged off the entire amount of Rs.193.33 lakhs to the Profit and Loss Account, during the year 1995-96 (Rs.100 lakhs paid in March 1996 and provision for Rs.93.33 lakhs made in the Accounts, although an amount of Rs.120.11 lakhs was recoverable from different parties.

The Management stated in their reply (December 1996) that :-

I. at the time of sale of various REP Licences, it was believed that these were purely export incentives and the levy of Sales Tax did not arise on such export incentives as export proceeds were exempt from Sales Tax;

II. the Supreme Court had for the first time in the year 1996, held that REP Licences were subject to Sales Tax as they are under and within the meaning of the word 'Goods';

III. it was considered commercially prudent, to get the advantage of obtaining higher rates of premium and that particular clause was not added.

The reply of the Management is not tenable in view of the fact that while in one case, a specific clause regarding the liability, if any, of the customer, towards Sales Tax and other levies, was incorporated in the Sale Order, no such clause existed in the balance Sale Orders.

Thus as a result of:

(a) the absence of efforts made by the Company towards

effecting the recovery of amounts due from the buyers of the REP Licences and;

(b) failure to incorporate a suitable clause in the Sale Orders; and

(c) consequent failure to recover Sales Tax payable by three private parties and two Public Sector Undertakings, as is evident from the provision made in the Accounts for the year, the Company suffered a loss of Rs.120.11 lakhs.

The matter was reported to the Ministry in November 1996; their reply has not been received (January 1997).

17.4.3 Transfer of mining lease of Deposit 11-B

With a view to attracting private investment in the Iron and Steel Sector, a Task Force, set up by the Ministry of Steel recommended that Iron Ore Mines should preferably be given for captive use to entrepreneurs setting up large iron and steel plants. The Government of India decided (May 1994) to develop the Iron Ore Deposit 11-B as a Joint Venture, with the participation of any one of the private sector companies, operating or setting up a gas based sponge iron plant and already having been assured by NMDC (Company) to meet a substantial part of their iron ore requirement. It was also indicated by the Government of India that investment by the Company in the proposed Joint Venture should be kept at the minimum (11 per cent in equity). Further, other criteria for selection of Joint Venture partner by the Company was suggested by the Government while conveying their decision, which included, inter-alia, the following:

- The Joint Venture Partner (JVP) and its associates should have a minimum turnover of Rs.500 crores per annum and ability to raise the resources required to fund 11-B

development project, estimated to cost Rs.515 crores.

- The JVP/group should preferably have experience of running/operating steel plant(s) and iron ore mine(s) in India or abroad.

- The JVP/Group would operate the mine for captive purpose only and not for commercial sale.

- An agreed portion of the production of the calibrated lump ore and fine ore shall be made available for allocation and distribution by NMDC.

The Company invited (June 1994) Limited offers from three probable partners i.e. Nippon Denro Ispat Ltd.(Party 'A'), Essar Gujarat Ltd.(Party 'B') and Vikram Ispat Ltd.(Party 'C'), who according to the Company prima-facie fulfilled the criteria prescribed by Government, and submitted the following to the Government in November 1994 recommending:

(a) In order of preference, the names of two parties i.e. Party 'A' and Party 'B' for participation as Joint Venture partners with the Company for development of Iron Ore Deposit 11-B.

(b) That the transfer of a part (area comprised in 11-B) of Deposit 11 held by the Company, to the Joint Venture Company, after following appropriate procedures should be preferred to sub-lease.

(c) That regarding consideration to be charged for transfer of Mining Lease, a decision was to be taken by the Government, keeping in view both the Company's financial interest and also larger policy considerations.

Based on the above recommendations, the Government of India communicated (12 June 1995) their approval of the selection of Party 'A' as the Joint Venture partner for development of Deposit 11-B:

-- confirming the equity participation of the Company at

11 per cent in total equity of the Joint Venture Company which, on the basis of the prevailing cost estimates amounted to about Rs.28 crores;

-- conveying that the Company may charge as consideration for transfer of the Mining Lease for Deposit 11-B, an amount that would enable it to recover the actual expenditure incurred by it on Deposit 11-B, including the cost of exploration of the Deposit and preparation of DPR, observing all the requirements for the transfer of lease prescribed under the Mineral Concession Rules, 1960;

-- stipulating various terms and conditions for entering into the Joint Venture Agreement.

The Company finally entered into an Agreement on 10 July 1995 with Party 'A', for the formation of a Joint Venture Company. The Agreement was subject to the transfer of the Mining Lease in favour of the Joint Venture Company.

The Joint Venture Company was incorporated on 31 July 1995, with the main objective of exploration and exploitation of iron ore from the Deposit 11-B, subject to the following:-

-- Actual measurement and delineation of the boundaries.

-- In terms of Clause 18(c) of the said Agreement, the consideration payable to the Company shall cover the actual expenditure incurred by the Company on the Deposit 11-B, including the cost of the exploration of the said Deposit and preparation of DPR as updated to the current cost, through an appropriate method, to be determined by the Company in consultation with a professional organization. Such determined cost by the Company shall be final and binding on both the parties.

-- In terms of Clause 18(d), the Company was required to make the necessary application to the Government of Madhya Pradesh for the transfer of Mining Lease in favour of the Joint Venture Company, only on payment of Rs.7 crores by

Party 'A'/Joint Venture Company towards part of the consideration.

An analysis in audit revealed that:

(i) The value of Mineral property based on estimated Mineral Reserves of 104 million tonnes of Iron Ore of Plus(+) 67 per cent Fe content worked out to Rs.3515.4 crores. Keeping in view the value of the mineral property of the Deposit, the Government should have directed the Company to invite offers on the basis of Open Tenders instead of inviting offers from the limited number of parties only. Invitation of offers on a limited basis was thus contrary to normal commercial procedures and prudence and did not protect the best interests of the Government.

(ii) Considerable time and resources had been expended by the Company in the exploration of the Deposit and preparation of the Detailed Project Report for over six years. The total expenditure incurred by the Company on the development of the Deposit, from 1967 to 1995 was Rs.575.73 lakhs. Since the Iron Ore content in the Deposit was of a very high quality (i.e., Plus(+) 67 per cent Fe), the decision of the Government to develop the Deposit-11B under the management of the Joint Venture Company with only 11 per cent equity participation from NMDC, was not only detrimental to the interest of the Company but also contrary to Government's earlier decision communicated in May 1992, conveying, in principle, the approval of the creation of a new Public Limited Company for taking up the development of Deposit 11-B, in which the Company would have 40 per cent to 49 per cent of the equity, and where the Company would play a key role in the project.

(iii) While communicating its approval in June 1995, the Government did not specifically mention the very important aspects relating to:-

- an agreed sum per agreed unit of the iron ore to be extracted and;

- such lump-sum amounts of consideration for the proposed transfer of the part of Mining Lease in favour of the Joint Venture Company, as contemplated under the Third and Fourth Provisos to Sub-Rule 2 of Rule 37 of Mineral Concession Rules, 1960.

(iv) Incidentally, when the Company sought legal opinion in August 1994, regarding the amount of consideration to be charged for the transfer of a part of the Mining Lease, it was advised (October 1994) to collect an agreed sum per agreed unit of the Iron Ore to be extracted and also lumpsum amount of consideration, besides the actual amount already spent by the Company as per Fourth Proviso to Sub-rule 2 of Rule 37 of Mineral Concession Rules, 1960. Despite this, the NMDC had not taken advantage of the rights conferred on the Government Company, in terms of the aforesaid Mineral Concession Rules, 1960. The Company merely left the decision regarding the consideration to be charged for transfer of lease to the Govt. of India. The Government also did not specifically mention the consideration to be collected from the Joint Venture Partner, other than the sum already spent by the Company. Thus, the decision not to collect the amounts so specified, was not only detrimental to the Company but also resulted in an undue benefit to the proposed Joint Venture Company i.e. primarily to the Party'A'.

Consequently, the probable parties for the proposed Joint Venture were only asked whether they would be agreeable to pay adequate compensation for the various works done by the Company as also compensation/consideration for the transfer of the Mining Lease to the Joint Venture Company. The parties were not asked to quote the amount of an agreed sum per agreed unit of the Iron Ore to be extracted and such lumpsum amounts as consideration for the proposed transfer of the part of Mining Lease, as contemplated in the Fourth Proviso to Sub-Rule 2 of Rule 37 of Mineral Concession Rules, 1960. Without taking advantage

of the above provisos, Party 'A' was asked to pay Rs.16.85 crores only, for the transfer of Mining Lease, when the consideration should have been determined keeping in view the cumulative net profit before tax amounting to Rs.1814.85 crores over 20 years, as had been projected in the Detailed Project Report. Out of the total consideration of Rs.16.85 crores, the Company received an amount of Rs.7 crores only, in July 1995.

(v) Further, according to Rule 37 (1) (b) of the Mineral Concession Rules, 1960, the lessee shall not, without the previous formal approval of the Central Government, enter into or make any arrangement, contract or understanding whereby the lessee will or may be directly financed to a substantial extent by, or under which the lessee's operation or undertakings will or may be substantially controlled by any person or body of persons other than the lessee.

Contrary to the above, the Company entered into an Agreement with Party 'A' in violation of the provisos of the Mineral Concession Rules, 1960.

(vi) The consideration based upon the amounts expended on various activities including, inter-alia, Investigation, Feasibility Studies and Dead Rent, was computed by the Company @ 17 per cent (on the actual expenditure incurred) and compounded on an annual instead of on a quarterly basis, thereby resulting in short collection of consideration, amounting to Rs.144 lakhs. This also resulted in extension of undue benefit to the Party 'A' as the company should have protected its own interest by computing the consideration on quarterly basis as is the normal commercial practice, rather than working it out on an annual basis.

(vii) The decision of the Government to keep the Company's equity at 11 per cent was not justified in view of the following:

-- The Company had been consistently earning substantial profits during the last five years and would have been able

to generate resources upto the share of 40 per cent to 49 per cent of the equity in the proposed Joint Venture Company.

-- The Company had lost control over the Joint Venture Company.

-- The Company was deprived of the benefit of sharing the projected average net profit of Rs.90.74 crores per annum.

The Management stated in their reply (January 1997) the following:-

(a) The Government had taken a policy decision that Deposit 11-B may be taken up as a Joint Venture with the participation of one of the private sector companies, operating or setting up gas based sponge iron plant, and which already have an assurance from the Company to meet substantial part of their iron ore requirements. Accordingly, offers were invited from three such parties only.

(b) The decision as regards the consideration to be charged, had been left to the Government of India, keeping in view both the financial interests of the Company as also larger policy considerations.

(c) The parties were asked to pay adequate compensation to cover the cost incurred on the development of Deposit 11-B towards various works done by the Company.

(d) The expenditure, as incurred in different years, was compounded on an annual basis @ 17 per cent per annum, towards cost of funds which, in the opinion of the Company, was reasonable and comparable to any long term investment.

The reply of the Management is not tenable in view of the following reasons:-

a) Viewed in the context of the financial viability of the Deposit as envisaged in the Detailed Project Report, the

Government should have directed the Company to invite offers on the basis of Open Tenders and by the fixation of a Reserve Price instead of inviting offers from limited number of parties only; nor, does it give any rational explanation to tie the entire financial interest of the Company to three parties to whom certain assurance might have been given for assured supply of Iron Ore. They could still be supplied Iron Ore from the Company at the value fixed by the Company as per its prices.

b) The Company should have recommended to the Government, specifying the amount of consideration to be charged for the transfer of Mining Lease, taking into account, the provisos of Mineral Concessions Rules as also the current commercial value of Rs.3515.4 crores of the mineral property of 104 million tonnes of Iron Ore contained in the Deposit 11-B.

c) The Company should have asked the parties specifically to quote:

(i) the amount of an agreed sum per agreed unit of the Iron Ore to be extracted; and

(ii) lumpsum amount as consideration for transfer of Mining Lease as contained in the Fourth Proviso to Sub-Rule 2 of Rule 37 of Mineral Concession Rules, 1960 and as advised in the expert legal opinion, rendered in October 1994, even though the Govt. had not specified these conditions in its letter of 12 June 1995.

d) The Company should have worked out the consideration to be charged by compounding the actual expenditure on quarterly instead of on an annual basis to get an additional benefit of Rs.144 lakhs following the commercial principles to be applied for short term investments.

The Mining Lease of Deposit 11-B has, however, not been

transferred in favour of the Joint Venture Company (February 1997). The case pertaining to the transfer is subjudice as there are two court cases (i) Writ petition before the High Court of Delhi and (ii) Writ Appeal before the High Court of Calcutta, pending adjudication. The Company stated (March 1997) that it would be subject to the approval of the Government of Madhya Pradesh with whom its (Company's) application seeking transfer of Bailadila 11-B Mining lease was pending.

Meanwhile, the Company had also applied to the Government of Madhya Pradesh (May 1996) for renewal of Mining Lease of Deposit-11 for a further period of 20 years from 12 September 1997, the grant of which is awaited (February 1997).

The matter was reported to the Ministry (November 1996); their reply has not been received (February 1997).

17.4.4 Lacunae in the agreement for setting up of Ultra Pure Ferric Oxide Plant.

The Board of Directors of the Company approved in February 1995, the Detailed Project Report (DPR) for setting up of a Ultra Pure Ferric Oxide Plant (UPFO) at Visakhapatnam at an estimated cost of Rs.4598 lakhs (including a foreign exchange component of Rs.1743 lakhs) for production of 6000 tonnes of UPFO per annum at 90 per cent capacity utilisation using Blue Dust, a powdery form of rich iron ore, available in its projects.

"Limited global tenders" were issued in May 1994, to three foreign firms, for the submission of offers by 1 July 1994 in two alternatives i.e. (i) for technology transfer and supply of imported critical equipment and (ii) On turnkey basis which includes transfer of technology and supply of critical imported equipment, and supply of indigenous equipment erection and commissioning. The due date of submission of offers was extended upto 3 September

1994 for all the three firms taking into consideration time taken for furnishing certain technical details.

Till 3 September 1994 only one offer from a firm in USA was received.The offer of an Austrian firm was received on 6 September 1994 and rejected on technical grounds, thereby resulting in availability being restricted to only one offer viz., that of the US firm for a total price of US $ 2,720,000 (equivalent to Rs.856.80 lakhs) towards supply of imported portion and Rs.2565.30 lakhs towards Indian supply portion, including Excise Duty, Sales Tax on items purchased in India, Sales Tax on works contract and Turnover Tax, in addition to surcharge as applicable. The tender also stipulated payment of product Royalty at $ 25 per tonne for seven years.

After conducting (April/May 1995) technical and commercial and price negotiations with the above Firm and after obtaining the ex-post-facto approval of the Board of Directors in May 1995 for the action taken towards limited tender in May 1994 by the Company, a Letter of Intent was placed in June 1995 on the Firm. This was in anticipation of Government approval for the transfer of process know-how and technology, basic and detailed engineering, supply of equipment, erection and commissioning of UPFO Plant at a total price of US $ 2,720,000 for US supply portion and Rs.2163.17 lakhs for Indian supply portion excluding duties and taxes payable in India by the Company. Approval of Government was communicated on 17 July 1995 followed by an Agreement entered into on 11 August 1995 between the Company and the Firm. The price negotiations with the Firm only resulted in reduction in respect of payment of product Royalty from $25 to $23 per tonne for 7 years.

An audit analysis revealed the following: -

- Limited global tendering was resorted to on the plea that except for the three firms from whom the tenders were invited, no other firm had the capability and technical

know-how for the setting up of the UPFO plant. However, this is not borne out from the Management's contention that any further survey to locate new parties would have involved further delay and NMDC would have had to get all the tests done in association with those new parties. This indicates that a complete survey of prospective parties was not carried out before calling for limited tenders.

Further, considering the poor response to the tender enquiry, open global tenders should have been invited to obtain competitive offers. Re-tendering could have been the logical alternative proposition in order to nullify the disadvantages associated with a lone technically acceptable offer. Thus, it cannot be concluded that the Company was able to procure the most competitive price.

Although the portion of contract to be awarded to the foreign firm was estimated by the Company at Rs.3440 lakhs, adjusted to the price levels upto December 1994, the contract was awarded (June/August 1995) at an agreed price of Rs.3600 lakhs (offered by the US firm in August 1994) on the basis of limited tender enquiry thereby conceding an increase of Rs.160 lakhs, which could be attributable to the dependence of the Company on a single source of supply.

- Article 3.3 of the Agreement provides that the Company is free to expand the existing plant or add a new plant for production of UPFO using the technology. In such a case, the Company would be required to pay US $ 10 per tonne of UPFO production for a period of 5 years, as product Royalty. This is contrary to the arrangement agreed to by the Firm (May 1995), according to which the Company would be allowed to expand and/erect new facility based on know-how provided by the above Firm. This was stated to be valid for a period of ten years from the date of commissioning of subject facility.

- In accordance with the general principles laid down by Government in January 1969, all royalties are subject to

Indian taxes. Contrary to this, the Company agreed for payment of royalty exclusive of duties and taxes payable in India.

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

- Limited tenders were invited because it was considered essential that the firm selected should have experience in working on the blue dust for the development of the final product since UPFO Plant was a hi-tech plant with unique technology;

- Re-tendering would have resulted in additional expenditure apart from delay in execution of the project;

- The Firm did not reduce their quoted prices since the prices quoted in August 1994 were kept valid for almost one year which otherwise, in the normal course, would have escalated and there was increase in the prices of raw materials, fabricated steel, etc., subsequently;

- The price level adopted in the Detailed Project Report were of December 1994 (based on budgetary offers or estimates) whereas the contract was awarded to the firm in August 1995 i.e after a gap of 8 months.

- Since the Company would be using the Firm's technology and know-how in case of expansion of existing plant or setting up of new plants, further payments of royalty in such cases was considered and incorporated in the Agreement.

The above reply is, however, not tenable for the following reasons:

- Since the Company had not conducted any survey of the firms who had developed the requisite technology, open global tenders should have been invited to ensure fair and reasonable offers for transfer of technology.

- The US Firm had agreed (May 1995) that after payment of the technology transfer fee and royalty for 7 years, the Company would be free to use the technology. The clause

regarding payment of further royalty for expansion projects was therefore, not justified.

The matter was reported to the Ministry (November 1996); their reply has not been received (January 1997).

RASHTRIYA ISPAT NIGAM LIMITED

17.5.1 Export of power

The requirement of power for Visakhapatnam Steel Plant (Company) is met partly by purchase from the Andhra Pradesh State Electricity Board (APSEB) and partly by its own generation through its captive power plant. The Company can bank on the surplus power available out of its captive generation with the APSEB for drawing the same when required. If insisted upon the APSEB shall pay for the quantity of power exported to it at the rate at which the power is charged to the Company. The APSEB stipulated (November 1990) that any inadvertent export of power by the Company would be ignored while computing exports for the purpose of billing.

During the three year period from 1989-90 to 1991-92 the Company exported to the APSEB 188.83 lakh units of power despite the telex instructions of the APSEB not to export power to it. Barring the export (71.53 lakh units) made by the Company during the periods of Restriction and Control, the Board disallowed (July 1994) payment for 117.30 lakhs units of power inadvertently exported by the Company during other periods. Computed with reference to the variable cost of generation of power, the loss suffered by the Company due to the inadvertent export of power (117.30 lakh units) worked out to Rs.63.43 lakhs.

The Ministry stated (November 1996) that:

- In the absence of any intimation from the Board contrary to the agreement made by them, it was perfectly in order for the Company to export its surplus power to the

Board into the grid for adjustment in determining the net energy for their billing accordingly.

The contention that the power supplied inadvertently by the Company into the grid may be the outcome of an afterthought of the Board and the internal circular of November 1990 was not in the knowledge of the Company, and hence the loss suffered by the Company was not due to their fault.

The reply of the Ministry is not tenable as the Company should have adhered to the telex instructions of the APSEB issued during September 1989 to December 1991 to regulate the captive generation as the Board did not require any power . The export of power in disregard to the specific instructions of the APSEB resulted in an avoidable loss of Rs.63.43 lakhs.

17.5.2 Failure to avail of duty free import benefit

Under the extant Import and Export Policy, duty free import of raw-materials, intermediates, consumables etc. required for direct use in the product to be exported, is permitted against an advance licence to be granted for the purpose. This is, however, subject to the fulfillment of time bound export obligations. Exports made from the date of receipt of an application (for import licence) by the licensing authority, are accepted towards discharge of export obligation. The licence is also transferable.

The Company obtained (11 June 1992 and 24 August 1992) two advance licences for the duty free (Rs.82.65 lakhs) import of raw-materials (coking coal, limestone, consumables and special refractories) required for use in wire rod coils intended for export. The above advance licences could not be availed of as the licensing authority did not accept

(November 1992) the exports made towards discharge of export obligations in view of the fact that the exports were made on 18 May 1992 and 23 June 1992 respectively prior to the receipt of the applications for the above two advance licences by the licensing authority on 20 May 1992 and 29 June 1992 respectively.

Due to the absence of effective monitoring, the fulfilment of the important condition governing the discharge of the export obligation i.e., the application for advance licence reaching the licensing authority before the exports were made, was not ensured. The Company could not utilise the two licences and had to surrender them in August 1993.

The Ministry stated (November 1996) that the Company was under the impression that once a proof of despatch of application was available, exports could be validly made against the application. The Ministry while admitting that a bonafide lapse had been committed, stated that systemic changes and controls have since been introduced in the Company to ensure that such lapses do not recur in future.

The fact,however,remains that the failure to comply with the provisions of Duty Exemption Scheme, had resulted in a loss of revenue of Rs.82.65 lakhs approx. (being the amount of duty exemption the Company had foregone as a result of its inability to utilise the two advance licences).

STEEL AUTHORITY OF INDIA LIMITED

ALLOY STEEL PLANT

17.6.1 Loss due to contamination/pilferage of goods

The Alloy Steel Plant (ASP) of the Company imports Ferro Alloys (Moly Oxide/Nickle Oxide/Ferro Nickel) through Calcutta Port. During October 1991 and February 1992, 5805

Kgs. of Ferro Alloys were short-received and 40373 Kgs. of Ferro Alloys were found contaminated. Total value of the alloys short received and contaminated was Rs.129.15 lakhs. Contamination/short-receipt was detected between December 1991 and March 1992 on Joint Survey conducted by the Plant Management, the representatives of the Suppliers, Insurance Company (the underwriter), the Plant's Vigilance Department and Central Industrial Security Force (CISF). The matter was investigated by the CBI, the Plant's Vigilance Department and the representatives of the underwriter. It was proved that contamination/pilferage took place while transporting the materials from Calcutta Port to the Plant premises at Durgapur. Notwithstanding this, the bills of the Transport Contractors and the escorts appointed respectively by the Transport and Shipping Department of SAIL and the underwriter were paid in full.

The Plant management preferred six claims on the underwriter between March and July 1992, for recovery of the entire loss amounting to Rs.129.15 lakhs. The underwriter, however, reimbursed only Rs.96.45 lakhs in October, 1995 due to the reasons that (a) no FIR was registered on receipt of contaminated goods, (b) plant could not submit concrete evidence regarding contamination/pilferage before receipt of goods in stores, and (c) the bills of the transporters were paid without any deduction on account of contamination/pilferage of goods. The Plant, thus, suffered a loss of Rs.32.70 lakhs (Rs.129.15 lakhs - Rs.96.45 lakhs).

The Management stated (May 1996) that SAIL did whatever was possible within their control and settled the claim amicably with the Insurance Company. However, necessary measures to avoid recurrence of such cases in future had been taken. The security deposit of the Contractors amounting to Rs.1.25 lakhs had also been retained by SAIL.

The reply of the Management is not acceptable due to the fact that since ferro alloys are high value imported

items, the preventive measures now initiated, should have been taken much earlier. Further, the two public sector undertakings viz., ASP and United India Insurance Company suffered loss (though a major portion of the loss was recovered by ASP from UIIC), whereas the two private parties i.e Transporters and escorts were paid in full without making them responsible for the loss.

The matter was referred to the Ministry in November 1996; their reply has not been received (January 1997).

BHILAI STEEL PLANT(BSP)

17.6.2 Infructuous expenditure towards site preparation.

To meet the anticipated shortage of power supply from Madhya Pradesh Electricity Board(MPEB) at the 4 Million tonne stage of Bhilai Steel Plant(BSP), the SAIL Management, in March 1982, approved the proposal for 3rd Captive Power Plant with generation capacity of 180 MW (3x60 MW) at an estimated cost of Rs.210.02 crores(including foreign exchange (FE) component of Rs.42.56 crores). The proposal was approved by the Government in June, 1983 at an estimated cost of Rs.208.50 crores (including FE component of Rs.42.56 crores) to be completed by June 1987. Accordingly, BSP placed orders worth Rs.170.90 crores, Rs.4.18 crores and Rs.1.44 crores on M/s.Bharat Heavy Electricals Limited, M/s Batliboi and Company and M/s ISGEC John Thompson (IJT) on 2 February 1983, 27 March 1984 and 14 March 1984 respectively.

However, from 1 May 1985 the supply of power improved due to withdrawal of restrictions by the State Government and BSP started getting its full quota of power from MPEB. The MPEB further intimated (March 1986) that the Electricity Board would be able to meet the future demand not only of BSP but also of Rourkela Steel Plant. In view of the changed position, the project was ranked low in priority by the

Government and a token fund allocation of Rs.100 lakhs only was made during 1985-86. Since the fund allocated was insufficient to complete the project, a view was taken that 3rd Power Plant was not necessary at that stage and therefore, a decision was taken to foreclose the contracts with effect from 23rd April 1986.

The fact that financial resources would be a constraint was, however,known to the SAIL Management as early as in May,1981 and it was decided at that time that inter-se priorities of schemes in the steel sector might have to be rephased to accommodate this priority scheme.

Meanwhile, Bhilai Steel Plant incurred an expenditure of Rs.130.75 lakhs towards site preparation and also paid Rs.63.32 lakhs to M/s. MECON (India) Ltd. (Rs.13.32 lakhs) and M/s BHEL (Rs.50 lakhs) as advance upto September,1987. Further, compensation claims for foreclosure of various contracts were settled and payment released during 1994-95/1995-96 for Rs.312.68 lakhs(including Rs.63.32 lakhs already paid to M/s MECON and M/s BHEL upto September,1987 and Rs.46.36 lakhs paid to MECON,Batliboi and IJT thereafter).

Thus, in addition to the loss of Rs.312.68 lakhs on account of compensation due to foreclosure of the contracts the expenditure of Rs.130.75 lakhs towards site preparation had also become infructuous.

The Ministry stated (September 1993) that SAIL was considering putting up a 500 MW power plant at Bhilai as a Joint Venture with private participation. Efforts would be made to take best advantage of the development expenditure incurred earlier.

The Ministry's reply is not tenable in view of the fact that the land which SAIL earmarked later in July 1995 for 500 MW Joint Venture Power Plant was different from the one where 3rd Power Plant was to come up.

17.6.3 Infructuous expenditure on Combined Blowing technology

On the recommendation of Research and Development Centre for Iron and Steel(RDCIS),Bhilai Steel Plant(BSP) proposed in September,1987 to introduce Combined Blowing (SCB) technology developed by SAIL in its three converters of Steel Melting Shop(SMS)-II at a cost of Rs.974.09 lakhs along with augmentation of Argon and Nitrogen facilities. It was envisaged that with the introduction of SCB technology, there would be reduction in consumption of scrap,ferro alloy,lime,aluminium, mouth and lance jamming and improvement in yield,lining life besides improvement in blowing control.

While examining the proposal,SAIL decided (May 1988) to introduce SCB technology in one converter only using the existing facilities with nitrogen purging in place of argon purging in view of the long time schedule required for completion of the total project, if taken at a time. Accordingly, a revised proposal for introduction of SCB technology in converter 'A' of SMS-II as an Addition, Modification and Replacement(AMR) Scheme was sanctioned in December 1988 at an estimated capital cost of Rs.124 lakhs which was subsequently reduced to Rs.81.53 lakhs.

The converter'A' was taken under capital repairs on 10th June, 1991 and the project was commissioned on 21st June 1991. Since BSP had apprehension that nitrogen purging in steel would result in nitrogen pick up beyond acceptable limits,only one set of bottom refractories(costing Rs.10.30 lakhs) was procured for trial purposes. Total expenditure incurred on completion of the scheme worked out to Rs.44.89 lakhs. However, it was noticed that, after commissioning, the system failed within 7 heats due to design deficiency and choice of nitrogen purging and thereafter it did not work at all.

In November 1992 (i.e. after a lapse of more than one year) a 'Review Committee' examined the various constraints and concluded that for the type of steel which BSP was manufacturing for export purposes, the purging gas ought to be argon in place of nitrogen. Hence the Committee recommended that further trial should be postponed till commissioning of Second Argon Plant as argon availability would be known only after its commissioning.

Since the Management was aware of the limitations in production and supply of argon gas, such project should have been taken up only after ensuring regular supply of nitrogen/argon gas, and developing infrastructure facilities. Introduction of technology without considering the limitations for supply of argon gas resulted in infructuous expenditure of Rs.44.89 lakhs.

The Ministry stated (May 1996) that this being a R & D project some amount of expenditure had got to be incurred so as to assess the results. Such type of expenditure could be termed as Development Expenditure. The Ministry also added that valve station and rotor joint were still in good condition and therefore, the equipment installed could be used in future after developing facilities for additional argon gas. Further, Second Argon Plant was likely to be commissioned within three years.

The fact remains that it was not at all desirable for SAIL to commission the SCB facility without developing infrastructure for sufficient argon availability when specific stress was given on availability of argon in the Status Report submitted in September 1988 on SCB technology in Bokaro Steel Plant (BSL). Further the amount could not be termed as Development Expenditure as the SCB technology was introduced as Addition, Modification and Replacement(AMR) Scheme. Regarding usage of valve station and rotor joint after commissioning of Second Argon Plant i.e by 1999, there is a risk of change in technology and deterioration of the

equipment lying idle, if it is assumed at the moment that the commissioning of the argon facilities would go as per schedule.

17.6.4 Infructuous investment due to non-achievement of objectives

The Railways introduced in September 1985 a scheme for rebate for wagons weighed on private weighbridges with a view to encouraging the colliery and siding owners to install their own weighbridges. The scheme provided, inter-alia, a rebate of 30 paise per tonne of traffic loaded and weighed on electronic weighbridge/weightometer subject to a maximum of 25 per cent of the capital cost plus cost of the staff provided to operate the weighbridge during the first four years, and thereafter subject to a maximum of 20 per cent of the capital cost plus the cost of staff provided.

The Steel Authority of India Limited felt the need for weighing of all loaded wagons to avoid under-loading and consequently to save payment of dead freight of Rs.60 lakhs (approximately per annum) to the Railways for the quantity short-loaded as the Railways were charging freight according to the carrying capacity of wagons.

Accordingly, a proposal for installation of one electronic in-motion weighbridge and one stick & grab bucket at Rajhara Mines at an estimated cost of Rs.36.43 lakhs was approved in January 1989. The weighbridge (150 tonne) was installed and commissioned in April 1991 only at a total cost of Rs.17.68 lakhs.

The weighbridge was, however, used for test weighing of 20 per cent wagons only against 100 per cent envisaged in the scheme for its installation, and has been under breakdown since December 1993. Thus, the rebate at the rate of 25 per cent of the capital cost of the weighbridge amounting to Rs.17.68 lakhs for the first four years (i.e. from 1991-92 to 1994-95) plus cost of staff could not be

availed of from the Railways as the effectiveness of the scheme of loading the wagons upto its carrying capacity could not be established. Further, since all the wagons were not weighed, the plant could not also save payment of dead freight on account of under-loading of wagons to the extent of Rs.225.21 lakhs during the years 1991-92 to 1994-95.

Thus, the purpose for which the weighbridge was installed could not be achieved and the investment of Rs.17.68 lakhs became infructuous.

The Ministry stated (July 1996) that due to practical difficulties of load adjustments, the use of weighbridge was restricted to test weighing of 20 per cent loaded wagons which provided the necessary curb on the payment of excess freight to the Railways. It was further stated that although it was considered to avail the rebate in freight under the scheme introduced by Railways for the owners of collieries and sidings for installation of their own weighbridges, the procedure for claiming rebate in freight from Railways was found to be cumbersome and, therefore, it was not pursued further.

The Ministry's reply is not tenable in view of the fact that (i) 20 per cent weighing was being done even before the proposal for procurement of weighbridge was submitted and the proposal was for the cent-per-cent weighing of the despatch of materials from Rajhara Mines and (ii) rebate was not received from Railways as the effectiveness of the scheme of loading the wagons to their carrying capacity could not be established.

17.6.5 Loss due to acceptance of quality complaint

The Company entered into a contract on 18 November 1988 with a West German Steel Company (purchaser) for export of 20,000 tonnes of mild steel plates of various sizes ranging from 12 mm to 40 mm at a price of US $ 372 per tonne FOB

Vishakhapatnam port. The contract was amended on 27th February 1989, and 50 mm and 60 mm size plates to the extent of 300 tonnes and 900 tonnes were included without altering the total tonnage by reducing the equivalent quantity of other smaller size plates. 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 and (ii) pre-shipment inspection certificate issued by Overseas Merchandise Inspection Company (India) Private Limited (OMIC), the authorised surveyor in India as agreed to by both the purchaser and seller. In March, 1989, BSP supplied 19307 tonnes of plates as per terms and conditions of the contract and received payment through letter of credit after furnishing the required certificates. In May, 1989 the purchaser raised quality complaint for US $ 1,73,540 against the entire lot of 60 mm plates as well as for a portion of 12,15 and 20 mm plates for a total quantity of 1346 tonnes.

The Company's Inspection team inspected the plates in question in June, 1989 alongwith buyers' representative in Italy. The Inspection Report indicated that out of 369.26 tonnes of defective 60 mm plates, 235.60 tonnes were bent either at one end or both ends and the remaining 133.66 tonnes of plates were either wavy or not properly cut. The plates having size of 12,15 and 20 mm could not be inspected as these were stated to have been sold.

After protracted negotiations, the Company agreed to pay Rs.17 lakhs (US $ 50,000) as compensation.

The Ministry in its reply (August 1995) stated that it was for the first time that Bhilai Steel Plant had undertaken export of heavy plates of above 40 mm thickness and, later on, it appeared that the quality of material was not upto the international standard. The Ministry's reply is not tenable as the heavy plates (50mm/60mm) were got included in the scope of export by the client to get advantages in the

competitive market abroad who accepted the condition of BSP that the plates would be supplied without bend tests and all the four sides would be flame cut.

Since, the plates were supplied as per conditions/specifications in the contract agreed to by the purchaser and seller, the Company was under no obligation to settle the compensation, which resulted in loss of Rs.17 lakhs to the Company.

DURGAPUR STEEL PLANT (DSP)

17.6.6 Infructuous expenditure on installation of De-sulphurisation Unit

In August 1984, Durgapur Steel Plant (DSP) decided for development of the system and technology of de-sulphurisation of hot metal by installing a vertical lance injection system using powder lime and soda ash. Against tender of December 1985, order was placed on a party in April 1987 at a cost of Rs.70 lakhs on turnkey basis as against original estimate of Rs.45 lakhs approved in August 1985 with a completion period of 14 months, and order for spares was placed in July 1990 for Rs.2.44 lakhs. Subsequently DSP also paid Rs.3.32 lakhs for extra jobs. As against the date of completion of 14 months, the Unit was commissioned and accepted on 27 September 1989 (i.e. after about two and a half years) and taken over by DSP on 15th May 1992.

However, the Unit did not function since its commissioning as the rate of requisite de-sulphurisation could not be achieved with powdered lime and soda ash.

The Ministry stated (September 1996) that the decision to go for de-sulphurisation project was taken up as a pilot project of Research & Development with the main objective of technology development and not the installation of a new

unit of proven technology. The unit could not be used in DSP due to long development cycle and thereafter due to commissioning of Raw Material Handling Complex (in blast furnace) and Basic Oxygen Furnace under Modernisation Programme. A Committee constituted to suggest means and measures to utilise this unit concluded that the unit could not be used in Steel Melting Shop and Basic Oxygen Furnace. However, equipment worth Rs. 12.60 lakhs could only be used out of total expenditure of Rs.75.76 lakhs incurred on this unit.

The Ministry's contention can hardly be justified as the project of installation of de-sulphurisation unit was taken up in 1984 when the Modernisation Programme was already approved by SAIL. The Modernisation Programme included commissioning of Raw Material Handling Complex, improved Blast Furnace and introduction of Basic Oxygen Furnace in place of existing Open Hearth Furnaces. The commissioning of these units resulted in production of low silicon and low sulphur content of hot metal and routing of more hot metal through energy efficient Basic Oxygen Furnace instead of conventional Open Hearth Furnaces.

Thus without considering the benefits to be achieved through the ensuing Modernisation, the Company went in for a pilot project which has no chance of its application in the Modernised Plant.

This has resulted in infructuous expenditure of Rs.63.16 lakhs which could have been saved, if the post-Modernisation operation parameters were kept in mind before embarking upon the project.

ROURKELA STEEL PLANT (RSP)

17.6.7 Avoidable payment of customs duty

Rourkela Steel Plant (RSP) placed (March 1992) an order on a Russian firm for procurement of 10 rolls of various

types required for Rolling Mills which were increased to 12 in May 1992 against General Import Licence at a total FOB cost of Rs.140.76 lakhs.

All rolls were supplied by the party between June to August 1993 and cleared from Customs by RSP between September to November 1993. The rolls were received at RSP between November 1993 to March 1994.

Prior to clearing of rolls from port, the plant had obtained, on the basis of exemption scheme announced by Government of India in 1992 covering the period from 1992 to 1997, two advance licences for availing of exemption from payment of customs duty on these rolls. However, the Management availed of duty free advance licence in respect of one roll (Bill of Lading No 8) only. For the remaining rolls (Bill of Lading Nos. 28,29,30,32,34,35 and 84) the duty free advance licences were not utilised. Thus, the Plant had to incur an avoidable payment of customs duty amounting to Rs.67.07 lakhs due to its failure to avail of the benefit of duty free advance licences (available with the plant). The Management had requested (December 1993) Customs Authorities for allowing them to process the matter afresh in Duty Exemption Entitlement Certificate (DEEC) Group for obtaining entitled benefit which was not complied with by RSP earlier due to oversight. Subsequently, the Customs Authorities rejected the claim of the Plant.

The Ministry, while admitting the fact that the customs duty paid against procurement of rolls was avoidable and had happened due to oversight, stated (August 1995) that the system and records-keeping had since been strengthened so as to ensure that such situation was not repeated in future.

SALEM STEEL PLANT (SSP)

17.6.8 Loss due to supply without verification

Salem Steel Plant (SSP), a unit of Steel Authority of

India Limited (SAIL) sold during March 1992 - May 1993 a quantity of 19.874 MTs of Cold Rolled Stainless Steel material at the concessional international price of Rs.11.80 lakhs to an export oriented unit (EOU) of Rajasthan as against normal domestic price of Rs.24.30 lakhs in accordance with Government policy under which EOUs were entitled to get material at international prices and without payment of excise duty on the basis of certificate issued by Central Excise Authority controlling the concerned EOU. The value of concessions thus allowed by SSP on these sales worked out to Rs.12.50 lakhs. In July 1993, Excise authorities at Salem indicated that the certificate submitted by the customer for this 19.847 MTs for claiming concessional rate was not genuine but forged and immediately demanded the differential excise duty from SSP at tariff rates applicable for normal domestic sale,which was paid under protest by SSP. The company also disentitled the customer to get the benefits extended and raised a claim which was pursued for some time in vain. Subsequently, the Company filed a suit for recovery of the difference in price between domestic and concessional rate from the firm. The court decree obtained (April 1995) for recovery of an amount of Rs.16,18,511 plus interest was handed over to the firm. SSP, however, apprehended that the firm might not honour the decree by payment and to preclude such a possibility, had filed an Execution Petition (October 1995) for Rs.21,37,447 (inclusive of interest upto October 1995). The decretal amount has not been realised so far (January 1997).

The Ministry while confirming the facts of the case stated (January 1997) that the materials were supplied taking into account past record of the customer and that the supplies were fully secured by LC.

The contention is not tenable as the business relations in the past cannot absolve SSP of its responsibility to conduct pre-despatch inspection of the beneficiary unit and obtain adequate security for full value of the material as

LC secured covered only concessional rate value of the material.

VISVESVARAYA IRON & STEEL LIMITED

17.7 Loss due to acceptance of Bank Guarantees without verification

The Company regularly sells its products to customers against letters of credit/bank guarantees. The Company's Sales Manual prescribed certain checks to be carried out in respect of letters of credit (L/C) before despatch of materials but contained no mention about checks in respect of bank guarantees. Even though the Company was accepting bank guarantees in lieu of L/Cs, there was no practice of verifying such bank guarantees from the concerned banks.

The Company accepted (November 1990) a new customer's request to supply materials against bank guarantees and supplied materials worth Rs.57.03 lakhs upto March 1992 against receipt of 5 bank guarantees totalling Rs.46.50 lakhs. As the customer paid only Rs.3.58 lakhs during 1990-91 and 1991-92, the accumulated balance recoverable was Rs.53.85 lakhs in March 1992 after some adjustments. The Company, therefore, stopped supplies during 1992-93 and encashed the March 1992 bank guarantee for Rs.5 lakhs in June 1992. When the Company requested (30th July 1992) the bank to invoke a bank guarantee for Rs.12 lakhs the payment was refused on the ground that the bank guarantee was only for Rs.2 lakhs. The Company thereupon filed a police complaint (4th August 1992) against the customer but did not formally invoke another bank guarantee for Rs.21 lakhs till 9th September 1992 (i.e. a day before the expiry of its validity) which was also found altered and valid for Rs.1 lakh only. On 17th September 1992, the Company invoked the remaining bank guarantee of another bank for Rs.5 lakhs and received payment thereon. The Company had also adjusted certain dues payable to the firm and other sister concerns

of the firm.

The Company filed a suit (March 1993) for the of outstanding dues of Rs.42.29 lakhs (including interest dues of Rs.11.44 lakhs) against the customer and the bank. In the plaint, the Company alleged that the bank was both jointly and severally liable for the claim as the bank authorities had colluded with the customer in altering the bank guarantees. The suit is still pending (January 1997).

The Company has thus locked up its scarce funds and got involved in litigation due to a number of failures:

-the bank guarantees were accepted as a matter of routine and without verification from the issuing banks, disregarding the procedure prescribed for checking letters of credit (L/C) even though the bank guarantees had been accepted in lieu of L/Cs.

-in June 1992, the bank guarantee selected by the Company for invoking was for the smallest amount and the longest validity of the three bank guarantees on hand.

-despite lodging a police complaint on 4th August 1992 against the customer for cheating, the Company did not invoke the remaining two bank guarantees till 9th September and 17th September.

The Management accepted (September 1995) the audit contention that the Company had locked up its funds in unnecessary litigation due to lack of proper system of checking/verifying bank guarantees before accepting the same and stated that the procedure for acceptance of bank guarantees had been reviewed by a Committee and a revised procedure instituted based on its recommendation.

The matter was referred to the Ministry in March 1995; their reply has not been received (January 1997).

CHAPTER 18

MINISTRY OF SURFACE TRANSPORT

DREDGING CORPORATION OF INDIA LIMITED

18.1.1 Infructuous expenditure on the import of additional shore pumping facility

The Government of India conveyed (February 1988) sanction for the procurement of two Trailer Suction Hopper Dredgers (TSHD) and a Cutter Suction Dredger (CSD), by the Company, at an estimated cost of Rs.75.60 crores. The cost of the Dredgers (TSHD) was to be met from out of a loan from a bank in Netherlands. Optional/additional items including Shore Pumping Facility, position finding equipment and spares, were to be met out of lumpsum grant of DFL 6,000,000 from the Government of Netherlands.

As the TSHDs were proposed to be imported from a Dutch Shipyard, Government appointed a Committee in March 1988 to negotiate the price and other terms and conditions for the supply of Dredgers. The Committee recommended in June 1988 the import of two TSHDs from the Shipyard with Shore Pumping facilities for both the Dredgers , as they may be required to work continuously. The Company procured Dredgers XII and XIV with facilities for Shore Pumping, without establishing the actual demand and requirement for their simultaneous utilization.

The two Dredgers were commissioned in August 1990 and April 1991 respectively. It was observed that while Dredger XII was utilized for Shore Pumping for periods ranging from 41 to 107 days in a year during the five year period ended March 1996, Dredger XIV was deployed for a limited period of 55 days and that too in the year 1993-94 only. It is, therefore, evident from the above that since the simultaneous requirement of the facilities for Shore Pumping

in the two Dredgers did not exist, the facility of Shore Pumping, in one out of the two Dredgers was thereby rendered idle (Cost Rs.285.42 lakhs).

Consequently, the expenditure to the extent of Rs.414.38 lakhs (being the cost of Spares) had to be met from out of the funds of the Company, instead of meeting the same from the lumpsum Grant of DFL 6,000,000 as originally envisaged.

The Ministry stated (November 1995) that the decision to procure the system for both the Dredgers was taken on the basis of certain projections which did not materialize fully and the under-utlisation of Dredgers was due to certain circumstances attributed to market conditions rather than any deficiency in decision making on the part of the Company.

The reply of the Ministry is, however, not tenable due to the following reasons:

First, the Ministry in May 1987 had already stated in their note to the Public Investment Board, that only one of the two Dredgers would have the Shore Pumping facility. Secondly, according to the technical opinion rendered by the Operations Department of the Company, the Shore Pumping arrangement in Dredger XIV was not immediately required to be fitted in situ. Evidently, the necessity for the additional facility did not exist.

Thus, the above investment of Rs.285.42 lakhs incurred on the Shore Pumping facilities, for the second Dredger, was rendered infructuous.

18.1.2 Avoidable loss on purchase of a second hand Dredger.

The Government of India and the Government of Netherlands, entered into a Memorandum of Understanding (MOU) in January 1988 to embark on a long term programme for

the development of maritime dredging in India, with the primary objective of providing Indian Ports and Waterways with adequate and efficient dredging services. The Hooghly Fairway Development Project (HFDP) of the Calcutta Port Trust (CPT) was identified by the two Governments for execution. Under this Project, the Government of Netherlands agreed in principle to provide as grant the cost of Dredger, including the transfer of technology thereof.

In pursuance of the proposal contained in the MOU, the CPT invited (March 1989) tenders from pre-qualified dredging contractors from Netherlands, for the execution of HFDP works. The tender conditions stipulated, inter-alia, that the Dredging Corporation of India Limited (Company) would purchase a Cutter Suction Dredger(CSD) proposed to be deployed by the contractor for the HFDP works. The lowest tenderer offered a 12 year old second hand Dredger , alongwith ancillary equipment and working spares for a period of one year.

The Company communicated (July 1989) to the Ministry that the acquisition of the Dredger would not be economically viable unless the Dredger and ancillaries were transferred to it as full grant.

According to the Supplementary Note of 2 November 1989 submitted by the Ministry, for the purpose of the Public Investment Board, the Dredger proposed to be purchased was of a higher capacity and in the event of the grant being extended to the Company , it would be required to meet the component of Customs Duty only (estimated at Rs.650 lakhs) on ancillary equipment with no foreign exchange involvement.

The Proposals for acquisition of the second hand CSD was deliberated upon by the Board of Directors of the Company in its Meeting held in April 1990, when it was apprehended that:

- the Company would not be able to utilise the Dredger to the optimum level unless its rates were competitive,

- the Dredger had to be used mainly in large dredging projects,
- the normative cost-based prices presently adopted by the Company would render the operations uncompetitive against International Bidders,
- the various Capital Dredging Projects envisaged in PIB Note might not materialise in continuous sequence and in that event , the Dredger might remain idle for prolonged intervals,
- low capacity utilization would lead to losses and thereby make debt servicing difficult.

The Ministry of Finance, however, declined (March 1990) the transfer of the Dredger as grant, as the project could not be finalized in time and no payments could be made during the year. It was further stated that as the offer had expired on 31 December 1989, Dutch grant assistance for the Dredger would not be available.

Despite the fact that the Company was fully aware of the above associated disadvantages in the acquisition of the Dredger other than as a grant, it however agreed to the proposal of the Government to acquire the same on payment.

Subsequently , the Government of India conveyed (April 1990) their approval for the acquisition of a second hand CSD (Aquarius) by the Company at an estimated cost of DFL 24.77 million, in lieu of the new CSD already sanctioned. The 12 year old second-hand Dredger was taken over by the Company on 10th January 1991, at a landed cost of Rs.4022.90 lakhs (including cost of ancillaries) in contravention of the Import and Export Policy, which stipulated that equipment/machinery intended to be acquired should not be older than 7 years.

The Ministry (April 1996) while confirming facts and figures of the audit observation stated that acquisition on payment basis was necessitated because, though the Dredger

was intended to be transferred to the Company before December 1989 by availing of the grant , the same however did not take place for want of the approval of Government for the acquisition of the Dredger. In the meantime the nature of funding has changed from a Grant to a soft loan, by the Government of Netherlands.

A review of the dredging operations of the above Dredger, for the period from January 1991 to March 1994, revealed that as against its rated capacity of 50 lakhs Cubic meters per annum, 14.62 lakh Cubic meters only were actually dredged (average utilization of 9% only). Thus the Dredger remained idle for substantial periods and the Idle time expenditure incurred amounted to Rs.2057.48 lakhs. This apart,due to the high incidence of operational and maintenance cost of the Dredger, the Company suffered a total loss of Rs.1178.81 lakhs on the projects where the Dredger was deployed.

The following Audit observations emerge from the above:-

-- As against the original intention of acquiring the Dredger by utilising the Dutch Grant, the same was acquired on payment basis, because of the failure of the Govt. to issue the approval before the expiry of the validity period.

-- Although the Import and Export Policy of the Govt. of India stipulated that equipment/machinery intended to be acquired should not be older than 7 years, yet the Company had procured a 12 years old Dredger.

-- Further, though the Dredger purchased was of a higher capacity , the fact remained that the same was grossly under-utilised on account of various factors.

-- The main objectives envisaged for the acquisition e.g. enhancement of the potential of the Company, undertaking major capital dredging projects at

economical rates, reduction of the project cost of HFDP and to undertake capital dredging works of high magnitude remained unfulfilled.

This apart, the Company suffered a total loss to the extent of Rs.3236.29 lakhs out of which Rs.2057.48 lakhs was the expenditure towards idle time charges and loss amounting to Rs.1178.81 lakhs was on the projects where the Dredger was deployed.

18.1.3 Shortages in inventory

The Dredger "Aquarius" was imported from Netherlands in January 1991. A Party, appointed by the Company for physical verification, conducted a survey of the inventory of spares on board the Dredger in June 1991.

The survey reported that the number of Pick Points and Adapters was required to be counted in the Dry Dock, after opening the steel welded pipes, in which they had been packed. The quantity marked on the outside of the Pipes, was reckoned for the purpose of the Inventory Survey. However, no physical count of Pick Points and Adapters was undertaken till the month of November 1993, despite the fact that the Dredger had been Dry Docked in June 1991 itself and again in January 1993.

Subsequently, when the physical count of Pick Points and Adapters was eventually undertaken by the Company (November 1993), shortages to the extent of 568 Pick Points of higher value and 25 Adapters were noticed, in addition to an excess of 475 Pick Points of lower value having been found. Further, a steel welded pipe, marked as containing 558 Sandvik Pick Points, was not opened. However , when this particular pack was opened (March 1994) it was observed that it contained 267 Sandvik Pick Points only.

In addition to the above, the dimension of the steel pipes were such that it could not have accommodated more

than 267 Pick Points, by any arrangement. Thus, there was a net shortage of 93 Pick Points in addition to a clear short supply of 259 Pick Points by the supplier.

The Company had neither inquired into the reasons for the shortage nor taken up the matter regarding the short supply of items with the supplier. A provision of Rs.65.75 lakhs had however, been made by the Company in its accounts for the year 1994-95, towards gross value of the shortage , for their eventual write-off.

The Ministry while confirming (January 1997) the net shortage of 352 Pick Points and 25 Adapters, stated that the basic cost of short supplied inventory of DFL 58,867 would be adjusted against the amount payable to the supplier.

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

(i) The Company is not in a position to recover the basic cost of net shortages i.e., DFL 58,867 from the supplier, since the net liability that remained to be settled in the books of accounts as on 31st March 1996, was an amount of DFL 43,015 only. Further, the Company has not communicated the fact of short supply of pick points to the supplier, even after six years, nor obtained acceptance for recovery of the same so far.

(ii) Further, the contention of the Ministry that the Company had gone in appeal for the refund of the entire amount of Customs Duty paid under protest on spares and auxiliaries, is also not acceptable as the chances of obtaining refund of Customs Duty were remote as the Assistant Collector (Customs) and Collector (Appeals) had already rejected the refund claim, on the grounds that the Company had violated all the terms of the Accessories (Conditions) Rules, 1963.

Thus, as a result of the failure on the part of the Company to have ensured the physical count of Pick Points

and Adapters in June 1991 itself, subsequent failure to have conducted the physical count in January 1993, and failure to tender the requisite claim for the shortages, from the supplier, the Company had to incur a loss of Rs.49.39 lakhs, being the net value of shortages, including Customs Duty. Besides, the Company failed to obtain the benefit of services for which the Party had been suitably remunerated by way of a Fee.

INLAND WATERWAYS AUTHORITY OF INDIA

18.2 Acquisition of a vessel

The Authority designed a Shallow Draft Cargo vessel 'Rajagopalachari' and got it built in November 1988 by a Dutch builder at a cost of Rs.446.30 lakhs with an objective of 'study-cum-experimental commercial transportation' in the Ganga Pilot Project stretch of National Waterway No.1 even though the Authority was not having trained and qualified crew to handle such a sophisticated vessel.

The final survey conducted on the seventh day of the delivery of the vessel to the Authority in India revealed some leakages of oil in HRP unit of the vessel. The vessel was put on trial runs in January 1989 after carrying out repairs of defects noticed during final survey. As the Authority did not have the required infrastructure and manpower to operate this vessel efficiently, it was handed over to the Central Inland Water Transport Corporation (CIWTC) on reimbursement of expenses/charter basis upto October 1992.

Owing to frequent breakdowns, it could be run for only 2400 hours(which could have been achieved in just 18 months) during the period of its possession with CIWTC between January 1989 to October 1992.

The vessel was taken back by the Authority in November 1992 and thereafter it remained non-operational and dry-docked for repairs till January 1996.

In anticipation of the completion of repairs, the Authority invited bids in September 1995 through tender to hire out the vessel on bare boat basis. As none of the three bidders was found technically fit, the Authority decided in April 1996 to operate the vessel itself with partly own crew/partly taking on contingent basis. Between January 1996 and November 1996, the vessel completed three trips (including one up and one down voyage without cargo) between Calcutta and Bhagalpur/Rajmahal. Thus, for most of the time between the date of acquisition of the vessel to January 1996 the vessel remained almost non-operational.

During the period from 1988-89 to 1993-94 and from January 1996 to November 1996, the vessel generated a revenue of Rs.14.57 lakhs only against the operational cost of Rs.76.19 lakhs and depreciation of Rs.106.80 lakhs (for 8 years at the rate of Rs.13.35 lakhs per annum) resulting in a net loss Rs. 168.42 lakhs besides blocking of capital of Rs.446.30 lakhs.

The Authority stated (January 1996) that it was not meant to carry out commercial operations and the basic purpose of acquisition of this vessel was not commercial but promotional through demonstrations. The Authority also confirmed that (i) the staff complement envisaged for the Authority did not include staff for cargo operations and (ii) the vessel developed a number of mechanical problems resulting in its non-operation for a considerable period for reasons beyond the control of the Authority. The Ministry also endorsed these views in February 1996.

The investment of Rs.446.30 lakhs on the procurement of the vessel, thus, proved infructuous since even the stated objective of study-cum-experimental commercial transportation could not be achieved due to faulty planning, unsatisfactory performance of the vessel and non-availability of trained and qualified crew.

18.3.1 Infructuous expenditure on standing charges

The Company obtained (February 1991) the approval of the Director General of Shipping and Government of India to sell their vessels M.V.Vallathol and M.V.Vallabhbhai Patel due to certain technical and economic reasons. With the approval of the Board (December 1990), tenders for sale of the vessels were invited in February 1991. In response to invitation for tender, the highest offers received were US $ 4.85 million for M.V.Vallathol and US $ 5.60 million for M.V.Vallabhbhai Patel. As the prices offered were considered low, fresh tenders were invited. For the second time also, prices offered were considered low and fresh tenders were invited. Thus, tenders were invited for as many as six times. In the fourth tender highest offers were received (July 1991) at US $6.45 million for M.V.Vallathol and US $ 7.59 million for M.V.Vallabhbhai Patel. However, the sale did not materialise as the bidders backed out.

The Company finally invited offers for the seventh time to sell the vessels for scrapping with the stipulation of Earnest Money Deposit (EMD) of Rs.7 lakhs for each vessel and received offer in April 1992. After reviewing the tenders, the sale committee recommended to sell these vessels to the highest bidders with the approval of the Board. M.V.Vallathol was sold to Sree Sai Baba Ship Breaking Company for Rs.10.51 crores and the vessel was delivered on 29 May 1992. Similarly, M.V.Vallabhbhai Patel was sold to Ghasiram Gokulchand Ship Breaking Company for Rs.10.51 crores and the vessel was delivered on 11 June 1992.

The above mentioned two vessels were laid up with effect from 6 January 1991 and 20 January 1991 respectively. The total lay up cost incurred by the Company on these two vessels from the date of berthing (January 1991) to date of

handing over for scrapping (May, June 1992) is Rs.4.72 crores.

Though these vessels were retendered to obtain higher prices, the Company had not (July 1991) collected EMD from the bidders in the fourth tender. Due to this, the Company could not prevent bidders from backing out when the highest offers were received and further standing charges of Rs.2.62 crores were incurred which otherwise could have been avoided, besides loss due to lower sales realisation.

The Ministry stated (February 1997) that the Company did not call for EMD from the tenderers as the management felt that if the EMD provision was removed from the tender conditions, more parties would participate and better offers would be received, which was in consonance with the existing practice in the international sale and purchase of second hand vessels. The Ministry also stated that it was unfortunate that the highest bidder backed out of the deal in this case. Further, EMD did not always offer any guarantee against preventing the highest bidder from honouring the deal. Therefore, keeping the prevailing situation in mind, the decision taken by the Company at various stages was the best and in the overall interest of the Company.

The contention of the Ministry is not tenable in view of the fact that in the absence of binding conditions, the highest price could not be secured thereby defeating the purpose of successive tenders, and the ships had to incur additional lay up cost of Rs.2.62 crores for the period from 12 July 1991 to the date of last tender, which could have been avoided.

18.3.2 Avoidable expenditure on standing charges

The vessel M.V.Amindivi built in 1970 had completed 22 years of its economic life and was laid up at Bombay since 3

July 1991 as the vessel required extensive repairs and renewals. The Company requested (August 1991) the Ministry for the revival of the vessel in view of the revision (March 1991) of the economic life of coastal vessels from 20 to 24 years. As there was no response from the Ministry till January 1992, the Board of Directors approved (February 1992) disposal of the vessel through a circular resolution.

The Ministry had prescribed in February 1991 a time schedule of 5 months from the date of laying up for sale/scrapping of the vessels which had not completed their economic life. Accordingly, the decision of the Ministry for disposal should have been received by 3 December 1991. But the approval from the Director General, Shipping was received only on 18 May 1992 and the vessel was sold on 29 May 1992.

The Ministry stated (April 1996) that the intervening period was utilised by the Company to ascertain the possibility of using the vessel for other trade/purpose/sectors and to obtain the decision of Andaman & Nicobar Administration (A&N Admn.) and Union Territory of Lakshadweep Administration (UTL Admn.) for operation of the vessel on their respective sectors after modification and repairs. The UTL Admn. had informed the Company for dropping the revival of the vessel only in February 1992 and, therefore, there was no delay on the part of the Company and the Ministry in this regard.

The reply is not tenable as the time schedule of five months includes the time required for evaluating other options also.

Thus, non observance of the guidelines resulted in the Company incurring standing charges of Rs.37.89 lakhs for the vessel during laid up period from 3 December 1991 to 17 May 1992 (167 days).

CHAPTER 19

MINISTRY OF TEXTILES

NATIONAL JUTE MANUFACTURES CORPORATION LTD.

19.1.1 Grant of interest free loan

In December 1984, the Trustees of National Company Limited Jute Mill Workers' Provident Fund paid Rs.40.13 lakhs to a broker firm for purchase of some specified interest bearing securities.

Out of the total amount of Rs.40.13 lakhs, the broker firm delivered securities worth Rs.16 lakhs between April 1988 and December 1988 after an abnormal delay of about 4 years. But no action was taken against the broker firm by the Trustees in the event of non delivery of securities within a reasonable time, nor was there any safeguard provided for abnormal delay/ non-delivery of securities.

As the broker firm did not deliver the balance amount of securities worth Rs.24.13 lakhs, the Trustees filed a civil suit in June 1989 at Calcutta High Court for recovery of the balance amount alongwith interest; the suit is still pending.

The Company advanced (April 1990) a sum of Rs.24 lakhs to the Trustees as interest free loan to make good their loss on the securities not received from the broker firm. The Trustees authorised the Company to appropriate the proceeds of the securities as and when recovered from the broker firm, against the aforesaid loan. But as the money advanced to the Trustees was doubtful of recovery, an amount of Rs.24 lakhs was provided in the accounts of the Company for the year 1993-94.

The Board of Directors of the Company also ratified (December 1991) the granting of the interest free loan of Rs.24 lakhs to the Trustees.

In May 1992 , the order of winding up of the broker firm was passed by the Court. Certain securities were in the possession of the broker firm but their ownership (i.e. whether the securities belonged to the parties in the suit or not) could not be ascertained. Hence, the securities were taken possession of by the Court's official liquidator who was to sell the securities and distribute the sale proceeds among the creditors of the broker firm. The Company filed an affidavit of proof of debt in September 1994. No amount has, however, been recovered so far (January 1997).

The Management stated (January 1996) that the Board of Directors decided to provide loan to the Trustees to save the Trust Fund for the welfare of the members of the Provident Fund. The Management further stated that instructions have been issued to prevent investment of surplus funds of the Trust through private brokers.

The reply of the management is not tenable as the terms and conditions of granting the loan to the Trustees were prima-facie prejudicial to the interest of the Company due to loss of interest and uncertainty in recovery of the loan, which resulted in a loss of Rs.24 lakhs to the Company.

The matter was referred to the Ministry in May 1995; their reply has not been received (January 1997).

19.1.2 Inadequate insurance and delay in receipt of claims

The stock of goods and the godown alongwith machinery were insured by the Company against fire for Rs.155 lakhs and Rs.6.85 lakhs respectively, with a provision for increase in the sum assured from time to time. On 30th June 1986, the value of stock stood at Rs.212.26 lakhs. On 11th August 1986, the Company requested the insurer for increase in the sum assured for stock from Rs.155 lakhs to Rs.210

lakhs by adjustment of the necessary additional premium from their cash deposit account with the insurer, though the necessary balance was not there in the account. The insurer neither increased the sum assured nor intimated the Company about it. The matter was also not pursued by the Company.

On 31st August 1986, there was a fire in the godown. The Company's claim for Rs.215 lakhs (stock Rs.193.72 lakhs and other assets Rs.21.28 lakhs) was settled by the insurer in June 1990 at Rs.159.44 lakhs (Rs.152.96 lakhs for goods and Rs.6.48 lakhs for building and machinery). The insurer asked (June 1990) the Company to return two sets of loss vouchers duly discharged in full and final settlement of the claim. The Company submitted (June 1990) the loss vouchers duly discharged but in part settlement of the claim which the insurer did not accept. The Company obtained legal opinion and was advised to give the discharged vouchers in full and final settlement of the claim alongwith a covering letter of protest to facilitate agitation for the balance claim later on. No such action was taken by the Company. The Company requested (October 1990) the Administrative Ministry to take up the matter with the Ministry of Finance (Insurance Division). The payment of Rs.159.44 lakhs was received by the Company in April 1992 (Rs.152.96 lakhs) and November 1992 (Rs.6.48 lakhs) pending settlement of the dispute for the remaining claim.

Thus, the action of the Company to have the insured sum for stock increased without ensuring availability of adequate balances in the cash deposit account to cover the additional premium, resulted in loss of Rs.40.76 lakhs. Further, non-acceptance of the amount initially settled by the insurer , ignoring the legal advice, delayed the receipt of Rs.159.44 lakhs by about two years.

The Managément stated (January 1996) that as no contrary advice was received from the Insurance Company till the date of fire it was assumed that National Insurance

Company had given effect to the instruction to increase the sum insured.

The Management's reply is not tenable as the Company should have pursued the matter with the insurer to ensure that the increase in sum insured had been effected. Besides, the Company should have verified that enough balance existed in their deposit account with the Insurer.

The matter was referred to the Ministry in August 1994; their reply has not been received (January 1997).

NATIONAL TEXTILES CORPORATION (TN&P) LIMITED

19.2 Inadequacy of internal control systems and procedures

In accordance with the procedure followed in the Coimbatore Murugan Mills of the Company, payment of wages to casual labour was made by drawing cash in lumpsum from the Cash Branch, for disbursement by officials who were also entrusted with the responsibility for preparation of wage bills, maintenance of musters, etc. The responsibility of Cash Branch was limited only to accounting for the lumpsum cash released to the disbursing officials. This procedure has been in vogue since 1990.

The above procedure facilitated fraudulent activities which came to notice only in January 1994. The Mills then initiated disciplinary action against the employees concerned and also registered a case with Central Bureau of Investigation. The CBI investigation is still incomplete (August 1996). The Company informed the Board of Directors (February 1995) that the irregularities actually persisted over a period of 3 years and that the extent of cash misappropriated was around Rs.16 lakhs. When the system

failure was pointed out in Audit, the Management conceded that fraudulent activities indeed existed in the system and explained that suitable action in this regard has since been taken by effecting necessary changes in the system.

The irregularities in the system which persisted for over 3 years is indicative of internal control lapse and lack of coordination between the Accounts Wing, Indentor Operating Unit and the employees entrusted with actual deployment of casual labour, wage payment, etc. which had resulted in the perpetration of the fraud and its belated detection.

The matter was referred to the Ministry in September 1996; their reply has not been received (January 1997).

CHAPTER 20

MINISTRY OF URBAN DEVELOPMENT

HOUSING AND URBAN DEVELOPMENT CORPORATION LIMITED

20.1 Avoidable liability due to post-award enhancement of fee.

The Housing and Urban Development Corporation Limited (Company) awarded (March 1990) the work of providing detailed architectural services for the guest houses to be constructed in its community centre project at Andrewsganj, New Delhi to 'J', a firm of architects. The fee payable to the architects was 2.5 per cent of the tendered cost less 0.1 per cent (effective rate 2.4 per cent) for the conceptual urban design which was accepted by firm 'J' without any reservations. In June 1990, however, firm 'J' represented that the guest houses being designed by them should not be treated as housing and that they should instead be paid the higher fee of 5 per cent admissible for non-housing projects. On this the fee was enhanced (June 1990) to 4 per cent less 0.1 per cent, (effective rate 3.9 per cent).

It was, however, noticed in audit that firm 'J' had themselves stated (June 1990) that for the purpose of preparation of tender documents, they would work out the quantities for one block and increase them proportionately to cover 6/12 Blocks. As regards site development also the quantities would be worked out for one plot (6 blocks) and increased proportionately to cover two plots. Thus, the work involved was clearly of repetitive nature as in the case of a housing project. This, coupled with the fact that firm 'J' had earlier accepted the fee of 2.5 per cent unconditionally and hence the Company was under no obligation to enhance the fee already accepted, indicates that there was no justification for the same.

The unjustified enhancement of the fee had resulted in

the Company incurring an avoidable extra liability of Rs.45.89 lakhs at 1.5 per cent of the tendered cost of Rs.3059.52 lakhs.

The contention of the Management (November 1996) that the fee was enhanced as the project was a non-housing one is not tenable specially since the architect was fully aware of the nature of work before acceptance of the work and had agreed to execute the work at a fee of 2.5 per cent of the tendered cost without any reservations in March 1990.

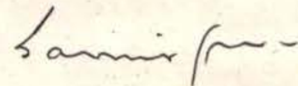
The matter was referred to the Ministry in December 1996; their reply has not been received (January 1997).

CHAPTER 21

FOLLOW UP ON AUDIT REPORTS (COMMERCIAL)

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

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



(SAMIR GUPTA)
Deputy Comptroller and Auditor General-cum-Chairman, Audit Board.

New Delhi
19 मई MAY 1997

Countersigned

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

New Delhi
20 MAY 1997

APPENDIX

APPENDIX

STATEMENT SHOWING THE DETAILS OF AUDIT REPORTS FOR WHICH ACTION TAKEN NOTES ARE PENDING AS ON 28 FEBRUARY 1997

No. & Year of Report.	Name of Report	Para No., if any.
(1)	(2)	(3)
MINISTRY OF AGRICULTURE		
1 No.2 of 1996	Audit Observations	Paras 2.1.1 & 2.2.1
DEPARTMENT OF ATOMIC ENERGY		
1.No.2 of 1996	Comments on Accounts	Paras 2.2.2 & 2.4.2
DEPARTMENT OF CHEMICALS AND PETRO-CHEMICALS		
1.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
2.No.3 of 1991	Audit Observations	Para 22
3.No.2 of 1993	Comments on Accounts	Paras 1.2.3, 1.3.4, 1.3.5, 1.3.6, 1.3.8, 1.4.3, 2.1.4, 2.3.1, 2.4.3, 2.5.2 & 2.5.3.
4.No3 of 1993	Audit Observations	Para 2.2
5.No.2 of 1994	Comments on Accounts	Paras 1.2.4 to 1.2.6, 1.2.8, 1.3.7, 1.3.8, 2.1.2, 2.1.3 and 2.5.1
6.No 3 of 1994	Audit Observations	Paras 1.5 & 1.6
7.No.2 of 1995	Comments on Accounts	Paras 1.2.5 to 1.2.6, 1.3.5 to 1.3.7, 2.1.2 to 2.1.6, 2.2.4 to 2.2.6,2.3.6 to 2.3.12, 2.4.1 to 2.4.5, 2.5.1, 2.6.2 to 2.6.4 and 2.7.1

8.No.3 of 1995	Audit Observations	Para 2.1 to 2.6
9.No.2 of 1996	Comments on Accounts	Paras 1.2.2, 1.2.4, 1.3.3 to 1.3.4, 2.1.2, 2.2.3, 2.3.2 to 2.3.5, 2.4.3 & 2.6.2

DEPARTMENT OF CIVIL AVIATION

1.No.8 of 1991	Operational performance of Vayudoot Limited	
2.No 3 of 1993	Audit Observations	Paras 3.7,3.10,3.11 and 3.13
3.No.2 of 1994	Comments on Accounts	Paras 1.2.3,1.3.2 to 1.3.3
4.No 3 of 1994	Audit Observations	Paras 2.1, 2.2, 2.6 & 2.7
5.No.2 of 1995	Comments on Accounts	paras 1.2.2, 2.2.3 and 2.6.5
6.No.3 of 1995	Audit Observations	Paras 3.1 to 3.3
7.No.12 of 1995	Air India Ltd	
8.No.18 of 1995	Hotel Corpn.of India Ltd.	
9.No.3 of 1996	Audit Observations	Paras 2.1.1 & 2.1.2

MINISTRY OF CIVIL SUPPLIES, CONSUMER AFFAIR AND PUBLIC DISTRIBUTION

1.No.2 of 1991	Resume Report	Section-II-81
2.No.3 of 1991	Audit Observations	Para 17
3.No.2 of 1993	Comments on Accounts	Para 2.5.11
4.No.3 of 1993	Audit Observations	Para 4.1
5.No.2 of 1994	Comments on Accounts	Paras 2.3.5 & 2.7.4
6.No.2 of 1995	Comments on Accounts	Para 2.1.14, 2.3.18, 2.4.15, 2.5.5 and 2.7.8

MINISTRY OF COAL

1.No.2 of 1991	Resume Report	Section-II- 10,33, 37, 41,49,150,153,176 and 195.
2.No.3 of 1991	Audit Observations	Paras 21
3.No.3 of 1993	Audit Observations	Paras 5.1 to 5.11
4.No.2 of 1994	Comments on Accounts	Paras 1.2.9, 1.3.5, 1.3.6, 2.1.4 & 2.4.1.
5.No.3 of 1994	Audit Observations	Paras 3.1 to 3.12
6.No.2 of 1995	Comments on Accounts	Paras 1.2.8, 1.2.9, 1.3.2 to 1.3.4, 2.1.9 to 2.1.11, 2.2.8 to 2.2.10, 2.3.1 to 2.3.5 , 2.4.7 to 2.4.12., 2.6.6 and 2.7.2
7.No.3 of 1995	Audit Observations	Paras 4.1 to 4.11
8.No.10 of 1995	Central Coalfields Ltd	
9.No.2 of 1996	Comments on Accounts	Paras 1.3.6 to 1.3.8, 2.1.5 to 2.1.8, 2.2.7 to 2.2.12, 2.3.7 to 2.3.12, 2.4.5 to 2.4.10 , 2.5.2 and 2.7.2
10.No.3 of 1996	Audit Observations	Paras 3.1 to 3.5

MINISTRY OF COMMERCE

1.No.3 of 1994	Audit Observations	Paras 4.2 & 4.6
2.No.2 of 1995	Comments on Accounts	Paras 1.3.8
3.No.3 of 1995	Audit Observations	paras 5.2 and 5.11
4.No.2 of 1996	Comments on Accounts	Paras 1.2.5 to 1.2.8, 2.1.4, 2.2.4, 2.2.6, 2.3.13 & 2.5.11
5.No.3 of 1996	Audit Observations	para 4.1

DEPARTMENT OF DEFENCE PRODUCTION AND SUPPLIES

1.No. 2 of 1996	Comments on Accounts.	Paras 1.2.11, 1.2.12, 1.3.11,1.3.13, 1.3.15, 2.1.9,2.1.10, 2.2.15, 2.3.14,2.3.16,2.4.11 & 2.4.13
2.No. 3 of 1996	Audit Observations	Para 6.2

DEPARTMENT OF ELECTRONICS

1.No.2 of 1991	Resume Report	Section-II-40,52 & 170
2.No.2 of 1993	Comments on Accounts	Paras 1.3.11, 1.4.8, 1.4.9 & 2.4.12
3.No.3 of 1993	Audit Observations	Para 8.1
4.No.2 of 1994	Comments on Accounts	Para 1.3.15
5.No.3 of 1994	Audit Observations	Para 7.1
6.No.2 of 1995	Comments on Accounts	Paras 1.3.17
7.No.3 of 1995	Audit Observations	Paras 8.1 & 8.2

MINISTRY OF ENVIRONMENT & FOREST

1.No.3 of 1994	Audit Observations	Para 11.1
2.No.2 of 1995	Comments on Accounts	Paras 2.2.30
3.No.16 of 1995	Andaman & Nicobar Island forest Dev. Corpn. Ltd.	
4.No.2 of 1996	Comments on Accounts	Paras 2.2.16 & 2.7.3

DEPARTMENT OF FERTILIZERS

1.No.2 of 1996	Comments on Accounts	Paras1.2.13, 1.2.14, 1.3.17 to 1.3.19, 2.1.11to 2.1.13,2.2.17 to 2.2.19, 2.3.6, 2.3.17 to 2.3.20, 2.4.14, 2.5.3, 2.6.4, 2.6.5 & 2.7.1
2.No.3 of 1996	Audit Observations	Paras 1.1 to 1.3

MINISTRY OF FINANCE(INSURANCE DIVISION)

1.No.2 of 1991	Resume Report	Section-II-130, 149, 155, 189 and 197
2.No.3 of 1991	Audit Observations	Paras 1.1, 1.2, 1.3, 2.1, 2.2 and 2.3
3.No.2 of 1993	Comments on Accounts	Paras 2.1.13 to 2.1.16
4.No.3 of 1993	Audit Observations	Paras 10.1 to 10.9
5.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
6.No.3 of 1994	Audit Observations	Paras 9.1 to 9.5
7.No.2 of 1995	Comments on Accounts	Paras 2.1.19 to 2.1.21, 2.2.15 to 2.2.17,2.7.6 and 2.7.7
8.No.3 of 1995	Audit Observations	Paras 9.1 to 9.13
9.No.14 of 1995	New India Assurance Co. Ltd.	
10.No.2 of 1996	Comments on Accounts	Paras 2.1.14 & 2.2.20
11.No.3 of 1996	Audit Observations	Paras 7.1 to 7.5

MINISTRY OF FOOD

1.No.4 of 1994	Central Warehousing Corporation	
2.No.17 of 1995	Food Corporation Of India	

MINISTRY OF HEALTH & FAMILY WELFARE

1.No.2 of 1991	Resume Report	Section-II- 93

DEPARTMENT OF HEAVY INDUSTRY.

1.No.2 of 1991	Resume Report.	ii) Section-I-C- 8 and 47. iii)Section-II- 27 and 181.
2.No.3 of 1991	Audit Observations.	Para 15 .

3.No.3 of 1994	Audit observations	Paras 11.1 and 11.11
4.No.2 of 1995	Comments on Accounts	Paras 1.3.23, 1.3.34 & 2.6.11
5. No.3 of 1995	Audit observations	Paras 12.6 & 12.18
6. No.8 of 1995	HMT Ltd.	
7.No.15 of 1995	Hindustan Paper Corpn. Ltd.	
8.No.2 of 1996	Comments on Accounts	Paras 1.2.15, 1.3.20, 1.3.24, 2.1.16 to 2.1.19, 2.1.22, 2.1.28 to 2.1.29, 2.2.21 to 2.2.23, 2.2.30, 2.2.31, 2.3.22 to 2.3.25,2.3.30, 2.3.31, 2.3.36, 2.3.38,2.3.40, 2.3.41, 2.4.15 to 2.4.17, 2.4.21,2.4.28, 2.4.31, 2.5.4, 2.5.5, 2.5.7, 2.5.11, 2.6.6, 2.6.8 2.6.9, 2.6.11 and 2.6.12

DEPARTMENT OF SMALL INDUSTRIES

1.No.2 of 1991	Resume Report.	Section-II- 136
2.No.2 of 1993	Comments on Accounts	Para 2.5.23
3.No.2 of 1995	Comments on Accounts	Para 2.2.30
4.No.3 of 1995	Audit observations	Paras 12.19
5.No.2 of 1996	Comments on Accounts	Paras 1.3.30, 2.1.30 and 2.2.32

MINISTRY OF HOME AFFAIRS

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

MINISTRY OF INFORMATION & BROADCASTING

1.No.2 of 1996	Comments on Accounts	Paras 2.2.33

MINISTRY OF MINES

1.No.2 of 1994	Comments on Accounts	Paras 2.4.10 & 2.6.5
2.No.3 of 1994	Audit Observations	Paras 12.2 to 12.4
3.No.2 of 1995	Comments on Accounts	Paras 2.1.28 to 2.1.30, 2.2.22 to 2.2.23, 2.3.28 to 2.3.29,2.4.22,2.4.23, 2.4.25, 2.5.9 & 2.5.10
4.No.3 of 1995	Audit Observations	Paras 13.1 to 13.3
5.No.2 of 1996	Comments on Accounts	Paras 1.2.21, 1..3.33, 2.1.32, 2.1.33,2.2.34 to 2.2.36, 2.3.42 to 2.3.45, 2.4.32 to 2.4.34 and 2.6.19

MINISTRY OF PETROLEUM AND NATURAL GAS

1.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
2.No.3 of 1991	Audit Observations	Paras 8.1 & 8.3
3.No.18 of 1991	Inventory Control in ONGC.	Except Paras 3.6 & 7
4.No 2 of 1993	Comments on Accounts	Paras 1.2.10, 1.2.12, 1.2.13,1.3.29, 1.3.30, 1.4.30, 2.4.28 to 2.4.31, 2.5.26 to 2.5.28 & 2.6.3
5.No.3 of 1993	Audit Observations	Paras 16.1, 16.4,16.5 16.7 & 16.9 to 16.11,
6.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 and 2.4.11 to 2.4.13
7.No.3 of 1994	Audit Observations	Paras 13.1 to 13.6 and 13.8 to 13.18
8.No 2 of 1995	Comments on Accounts	Paras 1.2.31 to 1.2.39 1.3.38 to 1.3.41, 2.1.31,2.2.26,2.2.27,

		2.3.31to 2.3.33,2.4.26 to 2.4.30,2.5.11 to 2.5.13 and 2.7.12.
9.No.3 of 1995	Audit Observations	Paras 14.1 to 14.32
10.No.19 of 1995	Pricing of Petroleum Products	
11.No.20 of 1995	IOC Ltd.(Refinery & Pipelines)	
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14.No 2 of 1996	Comments on Accounts	Paras 1.2.22 to 1.2.26 1.3.35 to 1.3.40, 2.1.34,2.1.35,2.2.41to 2.2.45,2.3.46 to2.3.49 2.4.36 to 2.4.43, 2.5.12 to 2.5.13 and 2.7.5 to 2.7.6.
15.No.3 of 1996	Audit Observations	Paras 10.1 to 10.5

MINISTRY OF POWER

1.No.3 of 1995	Audit Observations	Para 15.1
2.No.2 of 1996	Comments on Accounts	Paras 1.2.27 to 1.2.30 1.3.41, 2.1.36,2.2.38 to 2.2.40, 2.3.50, 2.4.44 and 2.4.45

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1.No.2 of 1991	Resume Report	Section-II-97 & 163
2.No.2 of 1993	Comments on Accounts	Paras 1.2.16, 1.2.17, 1.4.34,2.5.29 & 2.5.30
3.No.2 of 1994	Comments on Accounts	Paras 1.2.28 & 1.3.44
4.No.3 of 1994	Audit Observations	Para 15.1
5.No.2 of 1995	Comments on Accounts	Paras 1.2.45 to 1.2.47 1.3.45, 1.3.46, 2.1.33 to 2.1.36,2.2.28, 2.2.29,2.3.34,2.4.33, 2.6.18 and 2.7.15
6.No.3 of 1995	Audit Observations	Paras 16.1 to 16.6

7.No.2 of 1996	Comments on Accounts	Paras 1.2.31, 1.3.42 2.1.37 to 2.1.39 2.2.46, 2.2.47 &2.3.51

MINISTRY OF STEEL

1.No.2 of 1991	Resume Report	Section-I-B -5,7 & 8 Section-I-C-22 Section-II-89, 92,109, 173 & 193
2.No.2 of 1993	Comments on Accounts	Paras 1.4.36, 2.4.32, 2.4.34 & 2.5.32
3.No.2 of 1994	Comments on Accounts	Paras 1.2.30,1.3.50 to 1.3.51,2.1.14, 2.1.15, 2.4.14to 2.4.16,2.5.5, 2.5.6,2.7.6 and 2.7.9
4.No.2 of 1995	Comments on Accounts	Paras 1.2.48, 1.2.49, 1.3.47,1.3.49,1.3.50, 1.3.53 to 1.3.56, 2.1.37, 2.2.31, 2.3.36 2.3.39,2.4.34, 2.4.36 to 2.4.37, 2.6.20, 2.7.17 & 2.7.18.
5.No.3 of 1995	Audit Observations	Paras 17.1 to 17.18
6.No.21 of 1995	Rourkela Steel Plant	
7.No.22 of 1995	Ferro Scrap Nigam Ltd.	
8.No.2 of 1996	Comments on Accounts	Paras 1.2.32, 1.2.33, 1.3.43to 1.3.45,1.3.47 2.1.42,2.1.43, 2.2.48, 2.2.49,2.3.52to 2.3.55 2.4.47 to 2.4.52, 2.6.20 and 2.7.7
9.No.3 of 1996	Audit Observations	Paras 12.1 to 12.3

MINISTRY OF SURFACE TRANSPORT

1.No.2 of 1991	Resume Report	Section-I-C- 21 Section-II- 86
2.No.2 of 1994	Comments on Accounts	Para 1.3.53
3.No.2 of 1995	Comments on Accounts	Para 2.3.40

4.No.3 of 1995	Audit Observations	Para 18.2 & 18.4
5.No.2 of 1996	Comments on Accounts	Paras 1.3.48,2.1.40 2.2.50,2.4.46,2.5.14, and 2.6.21
6.No.3 of 1996	Audit Observations	Para 13.1

DEPARTMENT OF TELECOMMUNICATIONS

1.No.2 of 1991	Resume Report	Section-II-80 & 99
2.No.8 of 1992	Hindustan Teleprinters Ltd.	
3.No.2 of 1993	Comments on Accounts	Paras 1.4.4, 2.5.7, 2.5.8 and 2.6.1
4.No.2 of 1994	Comments on Accounts	Paras 1.3.9 & 2.7.2
5.No.3 of 1994	Audit Observations	Para 5.5
6.No.2 of 1995	Comments on Accounts	Paras 1.2.13, 1.2.14, 1.3.9 to 1.3.11, 2.3.13 and 2.5.3
7.No.3 of 1995	Audit Observations	Paras 6.3 to 6.4
8.No.2 of 1996	Comments on Accounts	Paras 1.2.9, 1.2.10, 1.3.10 & 2.2.13
9.No.3 of 1996	Audit Observations	Paras 5.1 to 5.2

MINISTRY OF TEXTILES

1.No.2 of 1991	Resume Report	Section-I-C-37 & 42 Section-II-29,31,34, 44,62,126,183 and 184
2.No.3 of 1991	Audit Observations	Para 28
3.No.5 of 1991	HHEC Limited	
4.No.2 of 1993	Comments on Accounts	Paras1.4.43 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
5.No.3 of 1993	Audit Observations	Paras 23.1 to 23.5
6.No.2 of 1994	Comments on Accounts	Paras 1.2.32 to 1.2.33

		2.1.17 to 2.1.18 and 2.4.17
7.No.3 of 1994	Audit Observations	Para 18.1
8.No.2 of 1995	Comments on Accounts	Paras 1.2.51,1.3.59 to 1.3.66,2.1.38 to2.1.40 2.2.34, 2.2.35;2.4.38 to 2.5.15, 2.6.21, 2.6.22, 2.7.19 and 2.7.20
9.No.3 of 1995	Audit Observations	Paras 19.1 to 19.2
10.No.2 of 1996	Comments on Accounts	Paras 1.3.50 to 1.3.58 2.1.44,2.2.51 to2.2.53 2.3.56 to 2.3.59 2.4.53 to 2.4.57, 2.5.15,2.5.16, 2.6.23 to 2.6.26, 2.7.8 and 2.7.9
11.No.3 of 1996	Audit Observations	Paras 14.1 to 14.3

DEPARTMENT OF TOURISIM

1.No.2 of 1991	Resume Report	Section-II- 100
2.No.3 of 1991	Audit Observations	Para 24
3.No.2 of 1993	Comments on Accounts	Paras 1.3.2 and 2.1.5.
4.No.3 of 1994	Audit Observations	Paras 2.3 to 2.5
5.No.2 of 1995	Comments on Accounts	Paras 2.1.41,2.2.36, 2.4.41, 2.5.16 and 2.7.21
6.No.3 of 1995	Audit Observations	Paras 3.4
7.No.2 of 1996	Comments on Accounts	Paras 2.1.45, 2.2.54,2.3.60, 2.4.58 and 2.5.17

MINISTRY OF URBAN DEVELOPMENT

1.No.3 of 1995	Audit Observations	Para 20.1
2.No.2 of 1996	Comments on Accounts	Para 1.2.34

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MINISTRY OF WATER RESOURCES

1.No.2 of 1991	Resume Report	Section-I-C-38 Section-II-134 and 194
2.No.3 of 1995	Audit Observations	Paras 21.1
3.No.3 of 1996	Audit Observations	Paras 15.1

DEPARTMENT OF WELFARE

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

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