

REPORT OF THE COMPTROLLER & AUDITOR GENERAL OF  
INDIA : UNION GOVT. (COMMERCIAL) PART XII 1981

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# REPORT OF THE

## COMPTROLLER AND AUDITOR GENERAL OF INDIA

UNION GOVERNMENT (COMMERCIAL)

1981

PART XII

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MISCELLANEOUS TOPICS OF INTEREST



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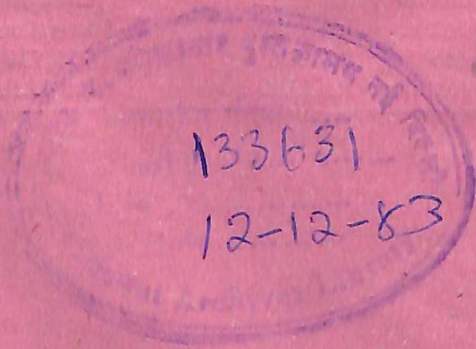
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## ERRATA

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(i)	Sub-heading of para (VII)	Loss on a cost plus agreement due to failure to furnish details of cost.	Loss on a cost plus agreement.
(ii)	2nd line of sub-heading of para (XI)		for
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COMPTROLLER AND AUDITOR GENERAL  
OF INDIA

UNION GOVERNMENT (COMMERCIAL)

1981

PART XII

MISCELLANEOUS TOPICS OF INTEREST



REPORT OF THE

COMPTROLLER AND ADDITIONAL GENERAL  
OF INDIA

336.54  
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UNION GOVERNMENT



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## PREFATORY REMARKS

A reference is invited to prefatory remarks in Part I of the Report of the Comptroller and Auditor General of India, Union Government (Commercial), 1981 wherein mention was made that this report will be presented in several parts.

2. This part contains points of interest noticed in the undertakings not taken up for comprehensive appraisal by the Audit Board.

3. The points brought out in this Report are not intended to convey or to be understood as conveying any general reflection on the financial administration of the Companies and Corporations or the departments of Central and State Governments dealing with them.

## (I) BHARAT COKING COAL LIMITED

### *Delay in finalisation of a tender*

In September 1977, the Company invited tenders for construction of internal roads and foot-paths at Saraidhella township without having the estimate for the work approved. Tenders were received in November 1977 and were valid for six months upto 28th May 1978. The scrutiny of tenders took about 5 months. The Tender Committee, to whom the tenders were put up after scrutiny, recommended on 4th May 1978 acceptance of the lowest offer of Rs. 45.86 lakhs. But the work could not be awarded to the lowest tenderer because of non-receipt of sanction of the estimates of the work from the competent authority, who approved the estimates only on 11th December 1978 owing to delay in the process of scrutiny of the estimate of the work at different levels. In the meantime, the firm, whose tender was the lowest, expressed (October 1978) its inability to take up the work on the grounds that the validity of its offer had already expired and the rates quoted earlier were no longer workable in view of increase in the market rates of material and labour. The firm was, however, called for negotiation in January 1979 and based on the recommendation of the Tender Committee made in February 1979. The work was awarded to the same firm in April 1979 at a cost of Rs. 49.21 lakhs. Thus, the delay in the finalisation of the tender and approval of estimates resulted in avoidable expenditure of Rs. 3.35 lakhs.

The Management, while admitting that the delay in the award of the work had resulted in an extra expenditure of Rs. 3.35 lakhs, *inter alia* stated (October 1980) that the delay in the approval of the estimates was due to examination of the need for pruning and phasing out the work in view of the financial commitments of the Company.



In this connection, it may be mentioned that action to examine the need for pruning and phasing out of various items of work was initiated in September 1978, *i.e.* after the validity of the lowest offer had already expired.

The paragraph was issued to the Ministry in August 1981, but their reply is still awaited (January 1982).

## (II) BHARAT HEAVY ELECTRICALS LIMITED

*Loss of Rs. 39.75 lakhs in the contract for renovation of generating sets.*

In response to a global tender for the supply of turbine components and renovation of 5 generating sets at Bhira Power Station of the Tata Power Company Limited, Bombay, Heavy Electricals (India) Limited, Bhopal submitted in February 1968, a quotation for Rs. 125.22 lakhs. The quoted price was subject to variation due to change in the cost of materials, labour, rate of exchange, customs duty, etc. As the price quoted by the Company (Rs. 151.90 lakhs after evaluation) was very high as compared to the offer of Rs. 85.25 lakhs (firm price) received from a Yugoslavian firm, the Central Water & Power Commission (Power Wing) asked the Company (April 1968) to reexamine the quoted price and intimate whether any reduction in price was possible. On the basis of further negotiations held with the Customer, the Company agreed to execute the work (May, 1968) at a price of Rs. 110 lakhs (Rs. 99.56 lakhs towards engineering services) subject to escalation only for changes in exchange rates and customs duty. A letter of intent was received from the Customer in August 1968 and a written agreement was concluded in February 1972. The manufacturing activities were started during May 1969 and the supply of components and commissioning of all the 5 units were completed during July 1974 to June 1977.

In August 1973 while the work was in progress, the Company reviewed its estimates and found that the cost would work out to Rs. 169.78 lakhs. The following reasons were attributed for increase in cost :



- Details of the scope of supply were not known and also relevant drawings were not available for making proper estimate.
- Delays had taken place in ordering the various materials.
- Because of the delay in ordering of materials and due to non-availability of reliable indigenous suppliers, a large number of castings had to be imported at higher cost.

The actual cost on completion of the work was Rs. 189.26 lakhs, which was more than even the revised estimate of August 1973. As against this the actual sale value realisable, including price escalation (Rs. 25.85 lakhs) and additional items (Rs. 13.66 lakhs) worked out to Rs. 149.51 lakhs only.

The element-wise break-up of the original estimate (on which the price of Rs. 125.22 lakhs was quoted), the revised estimate of August 1973 and the actual cost were as under :

(Rs. in lakhs)			
	Original Estimate	Revised Estimate	Actual Cost
(i) (a) Material . . . . .	15.91	81.62	77.59
(b) Purchase of resold items (cost of Runners and E. H. Governors) . . . . .	43.50	51.00	47.38
(ii) Labour . . . . .	1.41	1.50	3.39
(iii) Factory Overheads . . . . .	16.94	20.21	18.73 (Variable) 27.64 (Fixed)
(iv) Engineering Expenses . . . . .	13.45	14.95	13.98
(v) Tooling Expenses . . . . .	Included in material cost	0.50	0.55
	91.21	169.78	189.26

While there was increase over the original estimates in all the elements of cost, the increase in the value of material used (Rs. 65.56 lakhs) was very substantial.

Thus, in executing the contract, the Company suffered a loss of Rs. 39.75 lakhs (excluding commercial and other administrative expenditure incurred in the execution of the contract) due to preparation of estimates with insufficient details and delay in ordering various materials both from indigenous and foreign sources. The loss may further increase if the sum of Rs. 5.67 lakhs withheld by the Customer for efficiency shortfall in one of the units is ultimately not refunded. The Management stated (September 1981) that this amount was not likely to be recovered and hence a write off was under process.

The Ministry stated (April 1981) that '..... even though the preliminary estimates were prepared for quotation purposes without having full drawings and designs from the Collaborators at that stage, the order was taken at internationally comparable prices primarily with the objective of gaining valuable technical experience of working on imported sets and also gaining the technical know-how and training in sophisticated jobs of chipping and grinding of runners which were till then not done in India..... Taking this order also helped in utilisation of spare capacity in the Bhopal Unit's Water Turbine and Fabrication shops.'

It may be, however, mentioned that at no stage till finalisation of the agreement did the Management make even a passing reference to these aspects. Besides, the fact that the Company could not keep the delivery schedule would indicate that the shops could not cope with the jobs on hand. Also, there was loss even after excluding the fixed overhead expenses of Rs. 27.64 lakhs.



### (III) BHARAT PUMPS AND COMPRESSORS LTD.

#### *Unnecessary Import of Tubes*

Quotations were invited in August 1973 from the Indian Agents of 4 Japanese firms for import of special steel including stainless steel tubes (plain and finned) with a view to stocking these items in advance of requirements for fabrication of compressor ancillaries. Revised requirements which included carbon steel tubes (finned) were intimated to these firms, to 2 Indian firms and to Indian Agents of a U.K. firm in pursuance of the discussion the Chief Technical Manager of the Company had with the Principals during his visit to the U.K. in August 1973. Based on the rates offered in the two quotations received from the agents of a Japanese firm and the U.K. firm, an application for issue of an import licence was made on 5th January 1974 to the Chief Controller of Imports and Exports for import of carbon/stainless tubes (plain and finned) of the CIF value of Rs. 93.50 lakhs. While requesting the Director General, Technical Development on 29th January 1974 to recommend issue of the import licence to the Chief Controller of Imports and Exports, the Company stated that :

- The Company would require carbon/stainless steel tubes for gas coolers for 57 compressors but the tubes required for gas coolers for high pressure service and those for handling corrosive gases were not available indigenously.
- Delivery period of compressors would be cut short if these tubes were imported for stock and supply to the fabricators of gas coolers.
- Indigenisation of gas coolers would result in saving of foreign exchange.

In February 1974, the Company identified more sizes of plain and finned tubes and issued an enquiry to 11 parties. Of the 6 quotations received, the offer of the U.K. firm was considered to be complete and comprehensive. During discussions on 3rd May 1974 the Indian agents of the U.K. firm intimated increase in the prices of some of the items and extended the validity of the offer to 4th May 1974.

In order to avoid chances of any further increase in prices, a letter of intent was issued to the firm on 4th May 1974. In the meantime, the Import Licence, which was applied for on the basis of offers received against the earlier enquiry, was received and a formal purchase order on f.o.b. basis was placed on 16th August 1974 with directions to the supplier that the c.i.f. value of the purchase should not exceed the amount of Import Licence (*i.e.* Rs. 85,34,049).

The firm supplied material of the c.i.f. value of Rs. 81 lakhs during 30th November 1974 to 4th September 1975. An expenditure of Rs. 62.08 lakhs was incurred on customs duty and other incidental charges.

Immediately after completion of the supply, the Board of Directors, on a review of the Inventory position, directed (October 1975) that all-out efforts should be made to reduce the imported components and raw materials inventory by disposing of finned/seamless tubes after obtaining necessary approval from Government.

Out of the total purchase of Rs. 143.08 lakhs, the Company actually utilised tubes worth Rs. 3.00 lakhs only over a period of six years in the manufacture of compressors and disposed of material valuing Rs. 62.02 lakhs. Materials worth Rs. 78.06 lakhs were still in stock as on 31st March 1981. In April 1981, while intimating the Chief Controller of Imports and Exports that the balance quantity in stock was surplus to its requirements, the Company requested the Chief Controller of Imports and



Exports to divert the enquiries received by him for these items to the Company to help it dispose of the surplus stock.

The import of tubes was, thus, apparently not based on any realistic assessment of the requirements of tubes and resulted in unnecessary expenditure in foreign exchange and blocking of rupee funds with consequent loss of interest (@ 15% per annum) amounting to Rs. 70 25 lakhs upto 1980-81.

The Management stated (November 1978) as follows :

“..... the import licence application was submitted on the basis of orders and firm enquiries which were on hand on the date ..... In fact some of the imported tubes could not be used as some of the orders were under execution at various stages by the time the tubes arrived in India. Further, some of the firm enquiries on the basis of which the requirements of imported tubes was worked out, unfortunately did not materialise ..... Our anticipatory action went wrong.”

The Company, however, could not produce any records in support of the contention that the requirement of tubes was in fact worked out on the basis of orders in hand and firm enquiries. During the years 1975-76 to 1980-81, the Company produced 103 Reciprocating Compressors. The imported finned tubes were, however, used only in the production of 36 2NDVT/4 compressors.

The Company stated (July 1981) as follows :—

“..... in spite of our sincere and best efforts in utilising the above finned tubes for the balance of compressors produced during the above period the same could not be utilised due to the following reasons :—

- (i) These finned tubes although have many added advantages over plain tubes are suitable only

for moderate pressure applications. Since most of the compressors being manufactured by us are for moderately high/high pressure applications, these finned tubes could not be used in the manufacture of most of the compressors during the above period.

- (ii) Customers who are reluctant to use new items due to lack of experience, resisted manufacture of coolers/heat exchangers with finned tubes and insisted for plain tubes.
- (iii) These finned tubes are not very effective as compared to plain tubes while handling contaminated fluid for cooling on account of clogging of fins and consequent maintenance problems."

In this connection the following points, are noteworthy :—

- (a) While requesting the Director General, Technical Development in January 1974 to recommend issue of import licence, the Company had stated that import was necessary because the tubes required for gas coolers for high pressure service were not available indigenously whereas the Company has now contended that finned tubes are suitable only for moderate pressure applications.
- (b) The tubes were guaranteed for 18 months from the date of receipt at buyer's site subject to suitable storage arrangement. As the guarantee period had already lapsed, the possibility of these tubes being defective/unsuitable for consumption cannot be ruled out.

The paragraph was issued to the Ministry in January 1980 but their reply is still awaited (January 1982).

S/3 C&AG/82—2.



#### (IV) COAL INDIA LIMITED

##### *Loss of revenue due to non-recovery of surface transport charges retrospectively*

The prices of different grades of coal and coke were fixed by Government of India on f.o.r. colliery siding basis upto April 1974. In January 1974, Government appointed an Inter-Ministerial Committee to examine and prepare a comprehensive paper regarding revision of coal prices. The Committee recommended (March 1974) revised pit-head prices for different grades of coal and coke to be effective from 1st April 1974. The recommendation was accepted by the Cabinet Committee on Economic Policy on 25th May 1974. The revised pit-head prices of different grades of coal and coke effective from 1st April 1974, were communicated by the Ministry to the nationalised coal Companies on 31st May 1974. A scrutiny of the Ministry's files did not indicate the measures taken to devise a methodology to implement the retrospective price increases. As mentioned in paragraph XXVI (4) of Audit Report (Commercial)—1978—Part VI, the nationalised coal Companies had already made supplies of coal at the pre-revised rates upto 31st May 1974. The Government of India had not given any advance information also to the nationalised coal Companies about the impending price increase and, therefore, the coal Companies had effected sales at pre-revised prices without any escalation clause with the result that the price differential in respect of supplies made from 1st April 1974 to 31st May 1974 could not be realised from the bulk of cash parties.

The coal prices having been revised by Government on 'pit-head' basis retrospectively from 1st April 1974, the coal Companies were *ipso-facto* authorised to levy surface transportation charges, which they were incurring in transporting coal and

coke from the pit-head to the Railway and truck loading points, from the date of revision of prices.

After discussing the matter with the Ministry of Steel and Mines, the Coal Mines Authority Limited (now Coal India Limited) decided on 15th June 1974 to levy surface transportation charges from pit-head to the loading points in addition to pit-head prices. A flat rate of Rs. 1.20 per tonne was accordingly fixed and was made applicable for despatches made from 22nd July 1974 onwards even though the basis of pricing was changed from 'f.o.r. colliery' to 'pit-head' with effect from 1st April 1974. The loss on account of revenue forgone by Coal Mines Authority Limited (now Coal India Limited) and the Bharat Coking Coal Limited, due to non-recovery of surface transportation charges in respect of despatches made from 1st April 1974 to 21st July 1974, amounted to Rs. 164.80 lakhs and Rs. 54.16 lakhs respectively.

While all other coal consumers agreed to pay the surface transportation charges levied from 22nd July 1974, the realisation of transportation charges from 22nd July 1974 to 30th June 1975 from the following Government parties was still (November 1981) awaiting settlement and an amount of Rs. 173.22 lakhs was yet to be recovered from them as per details below :—

	(Rs. in lakhs)
Railways . . . . .	150.53
Badarpur Thermal Power Station . . . . .	7.90
Chandrapura Thermal Power Station of Damodar Valley Corporation . . . . .	14.79
	173.22



## (V) EASTERN COALFIELDS LIMITED

### *Sale of coal without adequate financial safeguards*

Firm 'A', a private handling agent, was purchasing coal from the Company for supply to industrial consumers and brick manufacturers (BRK parties). The firm had furnished two bank guarantees to the Company, one for Rs. 0.75 lakh in April 1974 and other for Rs. 0.50 lakh in January 1975 to cover the supplies against the consents issued. As per the then procedure :

- (i) consents were issued and supplies made by the Company to industrial consumers upto a limit of three times the value of bank guarantee/letter of credit furnished as security; and
- (ii) consents for BRK parties were issued on the condition that payment would be made on allotment of rakes.

An amount of Rs. 2.76 lakhs was outstanding against the firm in February 1976; the details of the outstandings relating to supplies to industrial consumers and BRK parties were not available. In February 1976, the Senior Sales Officer of the Company :

- (i) directed the firm to make payment of the outstanding amount, in the absence of which further allotment of rakes would not be recommended; and
- (ii) requested the Railways to keep the allotment of rakes in abeyance, till further advice.

Although the firm had not cleared the outstanding dues, the said officer advised (11th March 1976) the Railways, without

recording any reasons, to resume allotment of rakes to the firm. Again, on 18th May 1976, the same officer recommended the application of the firm for priority allotment of one BRK rake for despatch of coal to the District Food and Supplies Controller, Kaithal (consignee) on the grounds that the firm had undertaken to pay an advance of Rs. 1 lakh on allotment of the said rake and had already cleared all the old outstanding, though there was no recorded basis for this statement.

Although the firm did not make any advance payment, one BRK rake was allowed to be loaded from the Company's collieries on 23rd May 1976 for despatch to the District Food and Supplies Controller, Kaithal.

In accordance with the prescribed procedure, firm 'A' was to collect the railway receipts from the office of the Company at Calcutta and forward them to the consignee. The firm did not, however, take delivery of the railway receipts; instead the consignment was got released by the consignee at the destination through another firm 'B' on the basis of indemnity bond executed by the former in favour of the latter.

Bills raised by the Company against firm 'A' for Rs. 1.60 lakhs between 8th and 12th June 1976 were not paid by the firm. No liability for the payment was also accepted by the Railways, consignee and firm 'B' with whom the matter had been taken up by the Company.

In March 1977, the firm requested the Company for resumption of business dealings and made certain proposals for clearance of outstanding dues in instalments. These were considered by the Company and counter proposals were made to the firm in April 1977 but without any response.

In March 1979, the Company filed a money suit for recovery of Rs. 2.11 lakhs (Rs. 1.60 lakhs being the value of consignment sent to the District Food and Supplies Controller, Kaithal and Rs. 0.51 lakh on account of interest thereon) against firm 'A'



and others (i.e. firm 'B', District Food and Supplies Controller, Kaithal and Railways) in the court of sub-judge, Asansol. The suit is pending (October 1981).

The Ministry stated (April 1981) as follows :

- (a) In the instant case, coal was supplied without proper financial coverage due to certain human errors.
- (b) The Company has been directed to take necessary action against the persons concerned.

As regards (b) above, the Company had constituted (May 1980) a One Man Committee to investigate into the loss and fix responsibility for sale of coal without taking financial safeguards. The findings of the Committee were submitted in February 1981 wherein the lapses were mainly attributed to non-maintenance of proper accounting records and lack of co-ordination amongst the officers dealing with sales.

## (VI) FOOD CORPORATION OF INDIA

### 1. *Unsatisfactory storage arrangement*

An instance of unsatisfactory storage arrangement by the Food Corporation was cited in para 3 of Section-XII of the Report of the Comptroller and Auditor General of India—Union Government (Commercial)—1979—Part V. Another instance that came to notice of Audit subsequently, is mentioned below :—

Owing to lack of covered storage accommodation and heavy commitments for imports of foodgrains, a decision was taken by the Corporation in November 1975 for arranging cover and plinth (CAP) storages in Kandla.

In January 1976, a Working Group of senior officers of the Corporation considered the question of the crash programme for construction of plinths and recommended *inter alia* that special attention need be paid quickly for building up large CAP accommodation in or near the port areas, especially at Kandla or Gandhidham where the climatic conditions were favourable.

In pursuance of above recommendations, the Head Office of the Corporation issued instructions (on 3rd February 1976) to the Zonal Manager, Bombay and Joint Manager, Port Operations (JMPO, Kandla) to make enquiries about the availability of abandoned air fields near Kandla for creating CAP storage facilities. On 15th May 1976, JMPO (Kandla) wrote to the Zonal Manager (West), *inter alia* as under :—

— Due to shortage of time coupled with the pressure of imports from abroad and bumper rabi in sight, the Head Office was anxious to create one lakh MT



storage capacity at Kandla immediately in form of CAP storage or storage even with the minimum necessary levelling and compacting of these areas even without constructing temporary plinth..... abandoning all the basic requirements for scientific storage to hold the grain at the unloading point for want of any storage space beyond the region.

- Kandla being prone to cyclones and on account of very heavy winds accompanied by dust storms during the period between May to October, storage of precious foodgrains under CAP was fraught with danger.
- Storage in that area as was being proposed then even without adequate dunnage underneath and/or covers over the stacks to protect the grain would be suicidal.

Notwithstanding the above, land measuring 2.83 lakh sq. metres (open storage capacity over 4 lakh M.Ts.) and an additional area of 0.89 lakh sq. metres were taken over by the Corporation on lease basis at Gandhidham from Kandla Port Trust on 28th May 1976 and during June--October 1976 respectively to meet the needs of imports. The CAP storage complex was started on 2nd June 1976.

The Corporation devised CAP storage in 1969-70; this innovation involved construction of a brick plinth on which wooden crates carrying stacks of foodgrains are placed. According to the standard drawing finalised in February 1976, and instructions issued by the Corporation in September 1976, the normal height of temporary plinths is required to be one foot above ground level with proper drainage. However, imported wheat started arriving at CAP complex from June 1976, even before the construction of plinths required for CAP storage. Between June 1976 and January 1977, 5.08 lakh tonnes of

imported wheat were received. The stacks were built direct on Katcha ground/soil by providing dunnage of wooden rafters/ crates and hollow concrete blocks of height ranging from 6" to 11", which did not prove adequate.

The imported wheat which was stored in open was badly damaged in the successive rains in 1976, 1977 and 1978 and the salvaging operations were extended for about 4—6 months in 1976, 9 months in 1977 and throughout the year in 1978. Out of 5.08 lakh tonnes of wheat stored at Gandhidham complex, over 0.93 lakh tonnes being 18 per cent of the stock stored of the value of at Rs. 19.01 crores at economic rates were found damaged during 1976-77 to 1979-80. The damaged wheat stocks were disposed of as cattle/poultry feed, as manure and for industrial use for a value of Rs. 6.57 crores including sale of unserviceable gunnies, transfers to sound stock and storage loss; after adjusting these receipts from the over all loss, there was a net loss of Rs. 12.44 crores. In addition, an expenditure of Rs. 85.12 lakhs was incurred on salvaging the damaged stocks. The damage to imported wheat in long open storage was stated to be mainly due to :—

- direct storage on Katcha ground/soil with inadequate dunnage and without plinths;
- poor condition of gunnies due to constant exposure to rain and sun for over 2 years of storage;
- sinking of the stocks due to flooding;
- tearing of covers due to high velocity of wind; and
- shortage of polythene covers.

A major part of the total loss of Rs. 13.29 crores could have been avoided, if adequate and timely steps had been taken to build CAP storages conforming to standard pattern.



## 2. Purchase of black laminated (HDPE) Covers

As the rubberised covers used by the Corporation for fumigation purposes became very costly and also difficult to procure, the Corporation decided to purchase black laminated high density polyethylene (HDPE) woven fabric covers as an alternate arrangement to meet immediate requirements. Tenders for purchase of 2000 such covers were invited in July 1976 and the offer of the lowest tenderer was found acceptable.

The specification in the schedule to the tender stipulated joining of the fabric by stitching with high density polyethylene (HDPE) tape yarn, provision of folding for stitching purposes and closing of stitch holes with suitable sealing material. The Committee of Officers who examined the mini sample supplied by the lowest tenderer observed (August 1976) that the sample suffered from the following defects.

“No folding at the bottom. No sealing material used to close the stitch holes of the folding. No sealing material used on the seams at all. Neither funnels provided nor its position shown.”

During negotiations, the firm proposed welding of sides with ultrasonic welding device instead of stitching as provided in the tender documents. The proposal regarding change from stitching to welding of joints was accepted without testing the suitability of the welded joints and a supply order for 2000 HDPE covers of various sizes with welded joints was placed on the firm on 14th October 1976.

According to the supply order, delivery of the covers was to be made to the Regional Manager, Bangalore at the rate of 1000 covers during October 1976 and the balance 1000 covers by the end of November 1976. The supplies actually commenced in December 1976 and upto April 1977 (extended delivery period) the firm presented 2153 covers of which 1535 covers were accepted. Though the requirement indicated in the supply order was for fabric of variety No. 5 of ISI specification, the detailed specification indicated in the supply



order actually related to variety No. 3 which is a lower and weaker variety. Out of 1535 covers finally purchased, 1070 conformed to the requirement of variety No. 5, 255 to variety No. 3 and the remaining 210 covers were not found conforming to the requirement of even variety No. 3.

After adjusting a penalty of Rs. 1.65 lakhs for delay in supply, an amount of Rs. 20.52 lakhs was paid to the firm towards cost of 1535 covers on receipt of inspection notes and delivery challans in accordance with the terms of the supply order. The covers accepted and paid for were despatched by the Regional Manager, Bangalore to different consignees in the four zones of the Corporation. The freight charges for transportation of the covers to various destinations amounted to Rs. 23,000. Almost all the consignees complained that when these covers were put to use, they gave way on the joints and, therefore, could not be used. The order for the balance quantity was cancelled in May 1978 for the reason that the firm failed to supply the balance quantity strictly conforming to the laid down specifications despite repeated extensions in the delivery period.

According to the Management, the firm was requested repeatedly either to replace the defective covers or to remove the defects and since the party had not undertaken repairs/replacement of the defective covers, it was decided (May 1978) that the consignee units should arrange to get the covers stitched at the joints locally at the cost of the firm. However, the stitching could not be undertaken at all places for want of a suitable stitching material. Most of the covers purchased at a cost of Rs. 20.75 lakhs, therefore, could not be put to immediate use. The bank guarantee amounting to Rs. 70,000 given by the firm as security deposit was encashed (February 1980) and a suit was filed (April 1980) against the firm for recovery of Rs. 25,467 towards the cost of 13 covers found not conforming to the specifications.

In reply to a query from Audit, however, the Regional Manager, Bangalore intimated (August 1980) that out of 1535



covers, 1512 covers were reported defective. The various consignee units were also requested by Audit to furnish the particulars about the number of covers found defective on use, number of covers not used or used notwithstanding the defects, etc. The District Manager, Nalgonda, Andhra Pradesh, reported (August 1980) that out of 50 covers received, 48 covers "were found defective with a very weak texture and the joints were opened due to improper heat sealing". The Senior Regional Manager, Maharashtra intimated (September 1980) that out of 400 covers received "total cost of 209 covers is the total monetary loss sustained". The Regional Manager, New Delhi who had received 100 covers reported (December 1980) that "these covers were not at all leak proof and, therefore, not fit for fumigation purposes". The District Manager, Raipur who had received 44 covers stated (January 1982) that "due to defects/weakness in joints the covers were rendered unservicable". The District Manager, Ludhiana intimated (September 1980) that out of 100 covers received, 58 covers gave way from joints and 23 covers were kept in a packed condition as they did not conform to ISI specifications.

The information reported between June 1980 and January 1982 by the various consignee units, who had received 1535 covers, is summarised below :—

	Number of Covers
(i) Found defective and used after repair or with adjustments at the joints (including 72 covers repaired at a cost of Rs. 2,642—cost of repairs in respect of remaining covers not available)	243
(ii) Used notwithstanding defects (including 100 covers auctioned after full use)	154
(iii) Disposed of through auction	79
(iv) (a) Irreparable on date of reports.	334
(b) Rendered unservicable within 6 months	15
(v) (a) Kept intact separately and not put to use	63
(b) Repairable on date of reports	39
(vi) Not used due to defects	307
(vii) Position not reported	301

The consignee units have not intimated the amount of expenditure incurred on repairs of 154 covers to make them usable. It has also not been indicated whether 349 covers reported irreparable and 79 covers stated to have been auctioned became irreparable/unservicable after full use or they were irreparable on receipt. It will, however, be seen from the information furnished by the consignee units that acceptance of the suggestion regarding change from stitching to welding of joints without testing the suitability of the welded joints resulted in the purchase of 1535 covers valued at Rs. 20.75 lakhs, which, by and large, turned out to be defective and out of 1234 covers reported upon at least 370 covers could not be used due to the defect of breaking of joints. The cost of 370 covers comes to Rs. 5.00 lakhs (approximately) against which the Corporation has recovered a penalty of Rs. 1.65 lakhs and has encashed the bank guarantee of Rs. 70,000 on account of delay in supply and the firm's failure to replace or repair defective covers.

The Ministry of Agriculture has endorsed (June 1981) the Corporation's reply dated 7th February 1980 in which the Corporation stated as follows :

"On use, these covers were reported to have given way at the welded joints. The welding technique of the joints was accepted on the advice of the technical experts as it was for the first time that this thick type of fabric was purchased for making covers for fumigation purposes and the defects in welding of the joints if any could not be detected or anticipated by the inspecting officer."

### 3. *Non-provision of railway siding*

The Food Corporation of India decided (in 1965) to establish a storage depot of large capacity at Olavakkot in Palghat District by constructing godowns with storage capacity of 10,000 tonnes in the first instance, to be enlarged to 20,000 tonnes or more in the near future. As per the procedure in



vogue, godowns of storage capacity of more than 10,000 tonnes had to be connected by railway siding. The provision for a railway siding for the storage depot at Olayakkot was considered at that time to be economically viable.

Construction of three masonry godowns with 10,000 tonnes capacity at the depot was completed in 1968. Land for the railway siding was acquired and embankment thereon formed in 1966 at a total cost of Rs. 3.74 lakhs. The proposal for railway siding was, however, deferred by the Executive Committee of the Corporation in July 1966 due to its prohibitive cost. The above proposal was again taken up during September 1970 but it was decided by the Corporation in January 1972 that since the railway siding with the then available capacity was not economically viable, the proposal for the construction of the same might be kept pending till new godowns came-up and the volume of work was re-assessed.

In June 1977, however, based on detailed working of economic justification, the provision of railway siding was considered economically viable.

The storage capacity was increased to 44,720 tonnes as a result of construction of additional godowns in January 1973 (10,000 tonnes), August 1976 (4,200 tonnes), October 1976 to February 1977 (10,000 tonnes) and January 1978 to September 1978 (10,520 tonnes).

With provision of additional storage capacity from time to time, the quantum of foodgrains handled by the depot increased and consequently the expenditure incurred on handling and transportation of foodgrains from the railway goods shed to the godowns increased from Rs. 0.78 lakh in 1970-71 to Rs. 6.89 lakhs in 1977-78.

Administrative approval and expenditure sanction for provision of railway siding at a total cost of Rs. 286.44 lakhs was, however, accorded by the Corporation in March 1981.

Due to non-provision of siding, the Corporation incurred an avoidable extra expenditure of Rs. 12.29 lakhs during the years 1973-74 to 1979-80 on the handling and transportation of foodgrains at this depot.

The paragraph was issued to the Ministry in February 1979 but their reply is still awaited (February 1982).

#### 4. *Un-necessary hiring of airstrips*

In September 1976, the Corporation decided to develop some big cover and plinth (CAP) storage installations for augmenting storage capacity. Accordingly, instructions were issued to Zonal Manager, Madras on the 20th September 1976 to get sites inspected and report on the suitability of the airstrips from the operation point of view.

Before deciding to take over the airstrips for storage, neither the shipping programme nor the allocation-*cum*-movement plans were taken into account for assessing the requirement of additional storage space. The quantities of foodgrains expected in Tamil Nadu region, during the period from September 1976 to May 1977, ranged from 1.85 lakh tonnes to 0.64 lakh tonnes, against which the vacant space already available ranged from 1.86 lakh tonnes to 3.50 lakh tonnes.

Notwithstanding the above position, the following CAP storage accommodation was hired from Defence Department for storage of foodgrains even though by then tapering of imports was being perceived :—

Location of airstrip	Capacity	Date of hiring
(i) Ulundrupet . . . . .	1.50 lakh tonnes	23rd November 1976
(ii) Chettinad . . . . .	1.25 lakh tonnes	24th November 1976



After taking over the airstrips, an expenditure of Rs. 2.43 lakhs and Rs. 1.48 lakhs on the construction of plinth and godown was incurred at Ulundurpet and Chettinad respectively.

The above airstrips remained un-utilised. When proposals for shifting certain foodgrains to the hired airstrips were made in April 1977, the Zonal Manager, Madras suggested to the Head Office of the Corporation on the 18th May 1977 that it was not advisable to commission these two airstrips in view of following considerations :

- about 2 lakh tonnes of vacant space was available at Sholavaram, Arkonam and Vallam airstrips in the Tamil Nadu region alone. This vacant space could be utilised for stepping up clearance of up-country rice ;
- the Animal Husbandry Department raised an objection that the use of insecticides in the airstrips at Chettinad might cause health hazard to animals as well as human beings by polluting the water.

In June 1977, the Corporation decided to surrender these airstrips. The airstrips at Chettinad and Ulundurpet were handed over to the Defence Authorities on 27th October 1977 and 17th February 1978 respectively. In the meantime, an expenditure of Rs. 4.55 lakhs was incurred on pay and allowances of idle staff and rent etc., on the hiring of these two airstrips. After taking into account the value of salvaged materials amounting to Rs. 2.06 lakhs, balance expenditure of Rs. 6.40 lakhs could have been avoided, if the hiring of the airstrips had been planned properly after taking into account the actual storage requirements in the region with reference to shipping programme and allocation-cum-movement plans.

The Corporation stated (April/December 1980) as under :—

- the airstrips were taken on lease to meet urgent need in September 1976 for augmenting storage capacity as heavy receipts of rice were expected from up-country in Tamil Nadu region besides heavy imports of foodgrains were on hand;
- the food policy of the Government of India changed and import of foodgrains had completely stopped.

The above arguments are not acceptable in view of the following facts :—

- tapering of imports was being perceived by the time the airstrips were hired;
- the quantities of foodgrains expected in the region (including imports and up-country movement) were well within the vacant storage space available.

### 5. *Double Handling of Foodgrains*

Kerala region of the Corporation operates a storage depot of 12,000 tonnes capacity at Alleppey for wholesale distribution of foodgrains. Since Alleppey is not connected by rail, movement of foodgrains to this depot is made either by road or by waterways from Cochin, Mavelikara or Kottayam. The medium of Alleppey railway out agency for booking of foodgrains from up-country centres was tried but abandoned due to excessive transit losses.

The supplies meant for Alleppey were routed through Cochin. The wagons were unloaded at Cochin and the foodgrains were initially stacked at storage deposits in Cochin and subsequently de-stacked and loaded into trucks for conveyance to Alleppey. In August 1974, it was pointed out by Audit that S/3 C&AG/82—3.



the double handling of foodgrains at Cochin could be avoided by loading foodgrains meant for Alleppey depot directly from wagons into trucks. This suggestion was implemented partially by the Corporation from 16th May 1977 onwards.

During the period from April 1973 to 15th May 1977, 1,24,325 tonnes (14,70,178 bags) of rice meant for Alleppey depot had undergone double handling at Cochin involving an expenditure of Rs. 8.65 lakhs.

The practice of double handling was not noticed by the Corporation til it was pointed out in audit. Even so after Audit pointed this out in August 1974, the system was remedied partially only in May 1977 as a result of which double handling was avoided on 25,286 tonnes (2,86,727 bags) (54 per cent) out of 46,748 tonnes (5,34,681 bags) moved from Cochin to Alleppey during the subsequent period *i.e.*, from 16th May 1977 to 16th May 1979. Had these steps been taken earlier, a considerable portion of the expenditure of Rs. 8.65 lakhs on double handling could have been avoided.

The Ministry stated (March 1979/November 1980) as under :—

“Due to operational constraints, it has not altogether been possible for the Corporation to avoid double handling of foodgrains at Cochin although it has been reduced substantially”.

#### 6. *Non-utilisation of airstrip*

In order to meet the likely shortfall in storage capacity to the tune of 4 lakh tonnes in Uttar Pradesh region during 1976-77, the Corporation hired in December 1976 the airstrip at Faizabad and executed various engineering and electric works during December 1976 to March 1978 at a cost of Rs. 3.66 lakhs.

As against a storage capacity of about 1 lakh tonnes and plan for movement of stock of the same order, a quantity of 0.61 lakh tonnes of wheat had been stored till August 1977.

In June 1977, the Vice-Chancellor of Avadh University, Faizabad, informed the Corporation's Lucknow Regional Office that, as the land, including the area covered by the airstrip, had been transferred for expansion of the University, the airstrip be vacated urgently.

It was decided by the Corporation in September 1977 that steps should be taken by the Regional Office, Uttar Pradesh to liquidate the stock so that the airstrip could be vacated to enable the University to construct its campus. Movement of stock to various food storage depots in the Uttar Pradesh region and to other States was commenced in September 1977 and the last instalment was moved out during January 1979. The airstrip was, however, surrendered only on 20th February 1981 pending dismantling of engineering material installed at the airstrip (for safety of which 16 watchmen were continued to be deployed upto 19th November 1981) involving an unproductive expenditure of Rs. 3.70 lakhs (including Rs. 0.68 lakh paid to watchmen for the period from 21st February 1981 to 19th November 1981) on salaries of staff retained for the period from February 1979 to 19th November 1981. The barbed wire fencing and ballies (reserve price : Rs. 0.22 lakh) were finally handed over to the Avadh University on 18th November 1981 free of cost and in return the University agreed not to charge any rent of the airstrip, for the period from 20th April 1977 to 18th November 1981.

The Corporation stated (June 1981) as under :—

The question of continuation of the airstrip at Faizabad, alongwith other airstrips, was considered by a high



level Committee in November 1978 and it was decided to retain the same on the ground that these storage complexes were good intermediary storage points from the points of view of onward movement to East and South Zones.

In this connection, the following facts are relevant :—

- (i) The Committee's decision was of a general nature and the Committee had not specifically considered and rescinded the decision taken by the Corporation in September 1977 to vacate the airstrip.
- (ii) No stock of wheat had been stored after January 1979.

#### 7. *Idle equipment*

With a view to introducing mechanisation in handling of foodgrains in open storage, a trial run of two mechanical bag conveyors was conducted in Delhi on an experimental basis, which disclosed that :

- their use could raise the height of the stacks and expedite the stacking operation;
- though no financial saving was anticipated, these were operationally useful in saving labour, time and resources required for storing the bags in the open.

Based on the results of trial, the Corporation placed an order in March 1972 on a local firm for supply of eight machines at Rs. 31,690 each (exclusive of sales tax, etc.) to be deployed in the States of Punjab, Haryana, Uttar Pradesh and Maharashtra. The machines were supplied by the firm between 12th June 1972 and 4th July 1972 as against the delivery schedule of 6 to 8 weeks from the date of supply order; the extension of delivery schedule was agreed to by the Corporation subject to levy of liquidated damaged which came to Rs. 5,856

None of the machines (except the one installed at Hapur in U.P. and put to use from 12th May 1976 to 19th October 1976) was used due to one or other of the reasons mentioned below :

- operational difficulties and for want of skilled labour/ technician;
- no open storage was involved or stocks of food-grains received in the depot(s) were never more than the capacity of covered accommodation ;
- long time taken in repairing the gear of a conveyer which broke in February 1973.

In April 1977, the Corporation decided to shift these machines to big open storage complexes to overcome the difficulties of stacking and a sum of Rs. 0.26 lakh was incurred on their dismantling, transportation, installation and repair/maintenance. However, the machines were not utilised at the new sites also *inter alia* because of the following reasons :

- wear and tear of the machines and also damage to some parts during the period 1972—76, when these machines were not in use as well as during dismantling and transit from one place to another ;
- for want of mechanical and skilled staff required for their operation ;
- time taken in procurement of some of the broken parts likely to put the machines in working order.

In July 1980, the Corporation decided to dispose of these machines through auction. The machines are, however, awaiting (February 1982) disposal.

Thus, the procurement of these machines at a cost of Rs. 2.55 lakhs (after adjusting liquidated damages) without ensuring

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availability of skilled staff, etc. lacked justification and proved to be an unproductive investment.

#### 8. *Non-recovery of the cost of fertiliser*

Prior to 1st March 1976, the Corporation was acting as handling agent on behalf of Government of India for imported fertiliser. The procedure in vogue for release of fertiliser to private parties *inter alia* included :

The cost of the fertilisers supplied to a private party was to be realised centrally by the Zonal Office through the party's bankers with whom letter of credit was opened by the party, by presenting bills on receipt of despatch documents *viz.* consignee receipts, etc. from the District Office/issuing Depot.

The amount so collected was to be deposited in the Reserve Bank of India in the account of the Ministry and the Challan obtained was to be sent along with monthly sale account to the Pay and Accounts Office concerned and the Ministry.

During April 1972 to June 1972, a quantity of 727 Mts. of calcium amonium nitrate valuing Rs. 3.93 lakhs was issued to a private party by the Bhavanagar Depot of the Corporation, but the cost of the fertiliser remained unrecovered from the party due to following lapses :

The Assistant Manager, Bhavanagar, despite clear orders to send the despatch documents to Zonal Office, Bombay forwarded the same to the District Office, Rajkot which filed them instead of transmitting them to the Zonal Office, in favour of which letters of credit for Rs. 5 lakhs had been opened by the party in April 1972.

The sale accounts of the above quantity had also not been submitted by the Corporation to the Pay and Accounts Office and the Ministry.

The operation of letters of credit opened by the party in favour of Zonal Office, Bombay against release order issued by it was not watched and was allowed to expire.

The above lapse was detected by the Corporation in May 1976 when, in connection with the refund claim of the same party, the District Office, Rajkot was asked by the Ministry to verify whether any sale account of the party was pending. Efforts were made by the Corporation to recover the amount from the party in May, July and October 1977 but without any response from them.

In June 1978, the Ministry adjusted an amount of Rs. 6.60 lakhs (Rs. 3.93 lakhs being the cost of fertiliser and Rs. 2.67 lakhs as interest at 12 per cent from April 1972 onwards) from the handling expenses payable to the Corporation. Though the Ministry agreed in September 1977 to the filing of a suit against the party on behalf of the Government of India, a civil suit was filed by the Corporation against the party concerned in March 1979 for an amount of Rs. 7.62 lakhs towards the cost of fertiliser and interest from April 1972 to the date of suit. According to the Corporation (February 1980), the suit is not likely to come up for hearing for another four to five years.

Meanwhile, the Corporation recovered (1980-81) a sum of Rs. 6.60 lakhs from the Ministry out of sale proceeds of sub-standard stocks.

The Ministry stated (January 1981) that :

- The Corporation have been asked to take suitable action to fix responsibility for the lapse and take



appropriate departmental action against the Official found responsible.

- To take suitable corrective action to prevent such incidents in future.

While necessary instructions to prevent such instances in future were issued by the Corporation on 28th December 1981, no responsibility for the lapse has been fixed so far (December 1981).

#### 9. *Scheme for encashment of earned leave*

The Pay Committee (1974) appointed by the Corporation had examined the question of pay scales and service conditions of the employees of the Corporation. It had recommended against introduction of any scheme of encashment of earned leave by Corporation's employees while in service on the ground that in the Corporation there was no paucity of staff and leave reserve arrangements could be made in the off season. Based on the proposal received from the Corporation and recommendations of the Pay Committee, the Government of India, Department of Food, while conveying the approval for revision of pay scales and conditions of service of the employees of the Corporation, stipulated (April 1976) that the facility of grant of leave and entitlement of various kinds of leave would be admissible to the employees of the Corporation on the same terms and conditions as were applicable to the Central Government employees. Though the Pay Committee (1974) had clearly advised against the introduction of any scheme of encashment of earned leave by the Corporation's employees while in service and the Central Government Leave Rules did not permit encashment of earned leave to its employees while in service, a proposal to introduce a scheme of encashment of earned leave by the employees of the Corporation while in service was put up to the Board of Directors for approval without making any mention of the fact that the Pay Committee had clearly advised against introduction

of such a scheme. The Board approved the scheme on 29th November 1977. Even without obtaining the prior approval of Government and without amending the Staff Regulations, which require the approval of Central Government under Section 45 of Food Corporation Act, 1964, the Corporation issued orders on 13th December 1977 for introduction of the scheme for its regular employees (excluding deputationists from Central/State Governments or other Public Undertakings) effective from 1st November 1977. On 25th January 1978, it was clarified by the Corporation that the scheme of encashment of earned leave was also applicable to about 12,000 transferees from the erstwhile office of the Directorate General (Food), although they had specifically opted to be governed by leave, provident fund and other retirement rules of the Central Government and, therefore, were not entitled to the benefit of encashment of earned leave while in service since the Central Government Rules did not provide for encashment of such leave.

In April 1978, the Corporation approached the Department of Food to ratify the scheme of encashment of leave already introduced by the Corporation. In reply, the Department of Food intimated (April 1978) that since there was no provision for encashment of earned leave in the existing staff regulations, suitable amendment of the staff regulations would be necessary and that prior approval of the Food Department for introducing the leave encashment scheme was necessary as it was a deviation from the conditions of service approved by Government in April 1976.

The whole question of admissibility of encashment of earned leave was discussed by the Board of Directors in February 1981. The Board of Directors, *inter alia*, observed as follows :—

- The agenda note placed before the Board in November 1977 for getting approval to the scheme, did not make any reference to the fact that the Pay Committee had clearly advised against the grant of



benefit of encashment of earned leave to the employees of the Corporation on any pattern other than that applicable to the Central Government servants.

- No specific reference was made to the Department of Food for its concurrence as required under the Act for introduction of the scheme.
- The Corporation did not have the necessary authority even to proceed with the implementation of the said scheme.

In April 1981, the matter was referred for decision to the Department of Food, who in consultation with the Ministry of Law, again advised the Corporation (June 1981) that an amendment to the relevant regulation of the Food Corporation of India (Staff) Regulations would be necessary and that the Corporation should submit a proposal for amendment to the regulations with the approval of the Board of Directors. The Food Department also intimated the Corporation that, as per the existing provisions of the Food Corporation Act, 1964, the amendment would take effect from the date of its notification. After getting approval of the Board of Directors, the Corporation approached (January 1982) Government for approval to the incorporation of the Scheme in the Staff Regulations, 1971 with retrospective effect from 1st November 1977 as a special case.

The introduction of the scheme of leave encashment with the Board's approval, obtained without placing the full facts before the Board of Directors, and its implementation without obtaining prior approval of the Central Government and further extension (January 1978) of the benefit to the transferees from the erstwhile office of the Directorate General (Food), who had specifically opted to be governed by Central Government Rules, was not in order.

The total financial effect of the scheme with effect from 1st November 1977 is not available. According to the information contained in the Corporation's Performance Budget for the

year 1978-79, a provision for Rs. 1.50 crores was made towards encashment of earned leave for that year alone. Information collected in audit from one Zonal Office, 6 Regional Offices and 37 District Offices of the North Zone of the Corporation revealed that payments towards encashment of leave to the regular employees of the Corporation and the transferees from the erstwhile office of the Directorate General (Food), who had specifically opted to be governed by Central Government rules, amounted to Rs. 358.99 lakhs and Rs. 62.61 lakhs respectively in these units upto different dates till January 1982.

The Corporation stated (January 1982) as follows :—

“With the incorporation of the proposed amendment in the Staff Regulations, the payments already made in this regard to all employees including the Food transferees would be regularised. If the amendment as proposed from 1-11-1977 is approved by the Government, no recoveries from the Food transferees to whom the benefit of leave encashment has been extended, would be necessitated. Otherwise, recoveries of such payments will be considered.”

Government approval to the incorporation of the leave encashment scheme in the service regulations of the Corporation with retrospective effect from 1st November 1977 has not been received so far (March 1982).

#### 10. *Failure to take advantage of concessional rates of rent*

On 1st March 1969, the Corporation took over, as successor to the Department of Food, five sheds of the Bombay Port Trust (BPT) which were being used as grain storage godowns on monthly tenancy basis. From October 1972, the BPT fixed two rates of rent; a lower rate for storing grain-seeds etc. and a higher rate for 'general purposes' i.e. storage of non-hazardous goods and office enclosures. The Corporation was paying rent at the rates applicable to 'general purposes' since 1st October, 1972.



In September 1975, the BPT increased the monthly rents, effective from 1st January 1976, in respect of certain sheds in occupation of the Corporation and the enhanced rates of rent worked out as under :—

Name of shed	For storage of grain seeds, vegetable oils and oilcakes (Rs.)	For general purposes i.e. storage of non-hazardous goods and office enclosures (Rs.)
'B'	33,400 (including Rs. 400 for wire net)	82,900 (including Rs. 400 for wire net)
'F' (Bay 45 to 52)	3,135	8,778
'F' (Bay 53 to 70)	7,053.75	19,750.50
'T'	34,326	85,815
'G'	16,500	41,250

Accordingly, the BPT intimated the Corporation in December 1975 the decision for charging revised rents for the above mentioned sheds at the rates applicable to 'general purposes' storage from 1st January, 1976 with the stipulation that the use of sheds would be restricted to general Cargo (Non-hazardous goods). In October 1976, the Zonal Manager (West), Bombay accorded sanction for payment of rent at enhanced rates with effect from 1st January, 1976 and payment representing the difference between the old rates and the enhanced rates for the period from January 1976 to July 1976 was made in December 1976 without going into the details of the articles actually stored in the hired sheds.

Though the Managing Director of the Corporation was a Member Trustee of BPT, it was only as a result of discussion between the officials of the Corporation and the BPT on

1st December, 1976, that the Corporation became aware that concessional rates of rent were applicable for exclusive storage of foodgrains, vegetable oils, oil cakes etc. On the same day the Corporation intimated the BPT that with effect from 1st December, 1976, the Corporation would be storing foodgrains in the hired sheds (T,B,G and F) and gift articles in another shed 'L' and requested the BPT to reduce the rent accordingly. The BPT reduced the rent of the first four sheds from December 1976 onwards. In August 1978, the Corporation further requested BPT for retrospective application of the concessional rates with effect from January 1976 as the Corporation was storing only foodgrains/non-hazardous goods in these four sheds. The BPT, however, turned down (October 1978) the request stating that prior to 1st January 1976 the Corporation had been permitted to use the sheds for storage of non-hazardous goods in addition to foodgrains and as such, irrespective of whether or not the Corporation stored non-hazardous goods along with foodgrains, they would be liable to pay at enhanced rates applicable to storage for 'general purposes'.

A test check in audit (April 1981) revealed that no non-hazardous goods/gift cargo were stored during January 1976 to November 1976 and August 1976 to November 1976 in sheds "B" and "F" respectively for which higher rates applicable to "general purposes" storage were paid, resulting in extra expenditure of Rs. 7.18 lakhs. On the basis of the audit observation the District Manager, G.M. District of the Corporation, Bombay requested (May 1981) the BPT for applying concessional rates of rent for storage of foodgrains etc. for the period January 1976 to November 1976 in respect of shed "B" and for August 1976 to November 1976 in respect of shed "F". The BPT, however, turned down (June 1981) the request on the grounds intimated in October 1978.

Further, the Corporation intimated the BPT that from December, 1976 gift articles would be stored only in shed "L" having a storage capacity of 6,603 tonnes. The monthwise quantity of



gift articles stored in sheds T, G, F and L during January to November 1976 ranged between 905 tonnes and 2,934 tonnes. Had all the gift articles with foodgrains been stored in shed "L" alone and foodgrains alone stored in the remaining three sheds from January 1976 to November 1976 in the case of 'T' & 'G' sheds and from January to July 1976 in the case of 'F' shed, a major portion of the extra expenditure of Rs. 11.22 lakhs on these three sheds could have been avoided.

This paragraph was issued to the Corporation/Ministry in August 1981. The paragraph was further revised and sent to the Corporation/Ministry in January 1982. Replies of the Corporation and the Ministry are still awaited (March 1982).

## (VII) GARDEN REACH SHIPBUILDERS & ENGINEERS LIMITED

### *Loss on a cost plus agreement*

In October 1970, the Company undertook repair of a motor tanker belonging to a private firm on 'cost plus' basis. The firm opened a revolving letter of credit with its bankers for Rs. 0.50 lakh, valid upto 8th February 1971, for payment of the Company's bills which were to be accompanied by signed invoices and certificates of inspection issued by the surveyor subject to the condition that the total negotiations under this credit must not exceed Rs. 5 lakhs.

Two on account bills of Rs. 0.50 lakh each submitted by the Company on 18th and 21st January 1971 to the bankers were paid by the latter on 6th and 9th February 1971 respectively. At the request of the Company, the firm extended the validity of the letter of credit upto 8th May 1971 on the express condition that the invoices should specify details of the cost claimed.

On 17th February 1971 three bills for Rs. 2.97 lakhs (including the two earlier bills of Rs. 0.50 lakh each), supported by work done reports signed by the Surveyor, were submitted direct to the firm instead of the bankers. The firm pointed out that the bills did not contain the required details but pending discussion on this point it released a further on account payment of Rs. 1 lakh by cheque on 20th February 1971. Two more bills aggregating Rs. 1.67 lakhs were submitted to the firm on 26th February 1971 without work done reports as these were not returned by the Ship Staff duly signed and certified by the Surveyor. On 2nd March 1971 the firm informed the Company that the Surveyor was out of station and, while releasing a further



on account payment of Rs. 0.50 lakh, the firm requested the Company to furnish the break-up of the claim in the bills. The Company informed the firm on 1st April 1971 that the bills contained all the details which were normally furnished by it to other customers. The Company stopped, however, doing further work from 1st April 1971 and on 5th April 1971 submitted three more bills aggregating Rs. 4.12 lakhs for work done upto 1st April 1971 without the work done reports.

On account of non-payment of the bills by the firm, the Company filed a suit on 8th April 1971 in the Court of Law seeking a decree for Rs. 6.33 lakhs (as against Rs. 6.36 lakhs)—Rs. 6.23 lakhs being outstanding claims and Rs. 0.10 lakh being loss of profit on the unexecuted work. While the firm's contention was that the Company was not entitled to any payment till it furnished details of the actual cost of materials, labour and overheads incurred on board the Ship for its repairs, the Company argued that—

- (i) there was no agreement to give break-up of details of cost ;
- (ii) the stipulation for furnishing details of cost appeared only in the second letter of credit, which was never acted upon as payments were made direct by the firm ;
- (iii) the bills submitted were like the bills of other repairing agencies ; and
- (iv) it was not possible to furnish details of cost because as per practice of the Company, all primary records were destroyed every 2 or 3 months after tabulating the cost data in the punch cards.

The Court in its judgement of 13th September 1977 allowed a decree for Rs. 0.14 lakh for work in respect of which the

primary records were made available but rejected the claim for the balance amount on the following grounds :

- (a) The Company was an accounting party in a cost plus agreement and was obliged to satisfy the firm with the details of the cost.
- (b) After the suit was filed, it was the duty of the Company to preserve the documents on which it was relying in the suit.

The Company's subsequent prayer for relief under 'quantum meruit' as well as for sending the case for reference of figures was also disallowed by the Court for the reasons that (i) there was no pleading for 'quantum meruit', and (ii) in the absence of primary records, the Referee would not be able to come to any conclusion.

Thus, as a result of failure of the Company to furnish details of cost of the work done and destruction of the relevant records though a suit had been filed, it incurred a loss of Rs. 5.16 lakhs (Cost of the work Rs. 7.80 lakhs less the amount received Rs. 2.50 lakhs and the amount of decree Rs. 0.14 lakh) on the repair work undertaken on cost plus basis. In addition an expenditure of Rs. 0.33 lakh was also incurred on litigation.

The Ministry of Defence (Department of Defence Production) stated (August 1981) as follows :—

“GRSE had made all possible efforts to get the matter amicably settled..... but unfortunately they did not succeed. GRSE also could not succeed in the Court case as the primary documents could not be produced as it was the practice of the Company to destroy the same..... As regard pleading for quantum meruit, even though eminent Advocates had been engaged by them, this was not pleaded or made a part of the plaint by the Counsels. The management of GRSE, perhaps, cannot be held responsible for this aspect”.



## (VIII) HINDUSTAN ANTIBIOTICS LIMITED

### *Neomycin Sulphate Project*

On the basis of a process developed by its own Research and Development (R & D) unit, the Board of Directors of the Company sanctioned, in February 1966, a Project for establishing facilities for the manufacture of Neomycin Sulphate at an estimated cost of Rs. 21 lakhs (increased to Rs. 27 lakhs in November, 1966). The Project was to be completed in 2 stages, the first stage envisaged establishment of facilities for an annual production of 500 Kgs. of Neomycin Sulphate, to be increased to 2000 kgs. annually in the second stage. It was also decided to establish the production facilities for the product as an adjunct to the existing Hamycin Plant which was lying idle. Even before production was established in a pilot plant, the Company applied for an industrial licence, in March 1966, for the manufacture of 2000 Kgs. of Neomycin Sulphate annually. In October, 1966, Government granted the industrial licence with a stipulation that the Project should be implemented within a period of 12 months from the date of issue of licence. Due to difficulties in setting up a pilot plant for the manufacture of Neomycin Sulphate on semi-commercial scale, the Company requested the Government to extend the validity of the licence initially upto April, 1970 and later upto December, 1970. Only in December, 1970 the trial production commenced with an expectation to start regular production in April, 1971.

In April 1971, the Company informed the Government that although erection was completed and pre-commissioning tests were started in December, 1970, production trials were held up due to non-receipt of special type of ion-exchange resin known as 'Dowex' but it hoped to start regular production at the installed

capacity of 500 Kgs. per annum initially, to be ultimately increased to 2000 Kgs. per annum as soon as the demand for the product increased. In September 1972, the Company further wrote to Government stating that the technological problems had since been resolved, facilities for the manufacture of 500 kgs. of Neomycin Sulphate per annum had been commissioned and arrangements were being made to instal the balance facilities for the manufacture of 2000 Kgs. of Neomycin Sulphate annually.

In September 1975, however, the Company informed the Committee on Public Undertakings [with reference to para 4.01 (iv) of the Report of Comptroller & Auditor General of India—Union Government (Commercial) for the year 1970-71] that Neomycin Sulphate was still under trial production; as against 30 batches seeded during December, 1970 to October, 1972 only 13 batches could be harvested while the remaining 17 batches were drained out due to heavy contamination and the final product (118.891 Kgs.) obtained could not be sold due to low potency, etc. The Ministry informed in February, 1978 that one more batch was harvested in June, 1974 and the total quantity harvested in 14 batches amounted to 129.81 Kgs. Thereafter, the Research and Development unit took up the programme of strain and media selection to improve the production capacity, reduce impurities and Neomycin C content and totally eliminate the coloured pigments. It was finally claimed that these efforts yielded results and the trial of 8 batches during January—March, 1978 disclosed that 6 batches were conforming to IP specifications.

The Ministry stated (February, 1978) that the oil price hike had affected the basic viability of the project and a crash programme of further Research and Development activity had to be undertaken to attain better strains, which alone could make the Project viable in the changed circumstances. The Management, however, decided to discontinue the Project from November 1979. The total expenditure incurred on the Project upto the date of closure was Rs. 10.51 lakhs (Rs. 3.78 lakhs towards capital and Rs. 6.73 lakhs towards revenue).



The Management informed Audit (March, 1981) that Neomycin would not have much market as it was useful only for topical purposes and the Company had undertaken the production of Gentamycin which is more effective and which could also be injected.

In this connection the following points deserve mention :—

- (i) The Company obtained industrial licence even before it could establish production on semi-commercial scale in a pilot plant.
- (ii) Efforts to make the project successful had been sporadic and after 12 years, when the Research and Development Unit could establish a few batches conforming to IP specifications, it was found that there was no demand for this product in the market.
- (iii) The Company made a bulk provisioning for 1996 kgs. of an imported material (Dowex Resin) in March, 1972 in anticipation of Neomycin operation picking up. Of this only 200 Kgs. were consumed in 1978. The remaining 1796 Kgs. of the material (value Rs. 4.53 lakhs) were lying in stock for more than 8 years awaiting disposal. The highest offer for the surplus material received so far was Rs. 8980 only.
- (iv) Of the equipment (value Rs. 3.78 lakhs) rendered surplus, alternative use was found for only M.S. Vessels (value Rs. 1.50 lakhs) for penicillin Operations. Equipment worth Rs. 2.28 lakhs was still awaiting alternative utilisation or disposal (November, 1981).

## (IX) HINDUSTAN CABLES LIMITED

### *Purchase of defective steel wire*

With a view to developing indigenous sources of supply, tenders for procurement of 500 tonnes of 5.5 mm dia steel wire were invited in March 1973. Of the six tenders received, the Stores and Purchase Committee (SPC) recommended the placement of an educational order on a firm whose tender was considered technically suitable and whose sample delivered on 24th August 1973 was tested and found satisfactory. Accordingly, an educational order for 5 tonnes of steel wire of 5.5 mm dia at the rate of Rs. 2,625 per tonne was placed on the firm in August 1973 with the option to increase the quantity, if the educational order proved successful.

The Steel wire received in October 1973 (4.4 tonnes) against the educational order was put on trial run in November/December 1973. The report on the trial run dated 10th January 1974, revealed that the steel wire was not according to the specifications and there were a number of defects in the material. In the meantime, even before testing the materials received against the educational order, it was decided to accept a further quantity of 150 tonnes at the same rate, and the firm was informed accordingly on 31st October 1973. The firm expressed its inability to accept the order at the original rate, on account of increase in the price of steel and raw materials, and quoted a revised rate of Rs. 3,500 per tonne, reduced to Rs. 3,400 per tonne, on negotiations. Formal order for supply of 150 tonnes of steel wire was placed on 2nd January 1974.

While the material against the order placed in January 1974 was yet to be received, tenders were again invited in February



1974 and order for 250 tonnes of steel wire of same specifications at the rate of Rs. 3,641 per tonne was placed on the same firm in May 1974.

The firm supplied 150 tonnes of steel wire in June and July 1974 against the first order and 112 tonnes in December 1974 and January 1975 against the second order. The material received was put to use in March 1975 and was found to be sub-standard and not conforming to the specifications.

The question of supply of sub-standard steel wire was taken up with the suppliers between April and August 1975. In October 1975 the Company informed the Suppliers that efforts made to use 30 tonnes of steel wire had proved unsuccessful and that it proposed to send the balance for processing/replacement or alternatively to dispose it of after inviting open tenders at the risk and cost of the firm. In the absence of any response from the firm, the rejected material (234.5 tonnes) was sold by the Company in March 1976 for Rs. 4.01 lakhs against the book value of Rs. 8.82 lakhs and the firm was asked (August 1976) to reimburse the loss of Rs. 4.81 lakhs. The firm rejected (September/October 1976) the claim on the ground that the material was despatched after inspection and approval by the Company in accordance with the terms of the purchase order.

In October 1976, the Company issued a notice on the firm through its solicitors and referred the claim for arbitration in December 1976. A claim for Rs. 5.13 lakhs (inclusive of cost of sale and interest) was lodged by the Company before the arbitrator in January 1977.

The firm, however, obtained a stay order against the proceedings of arbitration and the case was still (May 1982) subjudice.

In a note forwarded (October 1980) by the Ministry of Industry the Management stated as follows :

“During actual operation of the steel wire on the Electroplater and wire drawing machines for manufacture of Copper Coated Steel Wire, frequent breakages of coils and wire entanglement of coils, variation in coil diameter in the Electroplater were observed.....  
..... As the replacement of the rejected quantity was not effected, the rejected quantity was disposed of by inviting tenders.”

The placement of the bulk order in January 1974, without awaiting the results of the trial test of the material received against the educational order, and the placement of a further order in May 1974 even after the results of the tests of the material received were known, lacked justification, particularly, in view of the fact that the material received was actually put to use in March 1975 only.



(X) HINDUSTAN PAPER CORPORATION LIMITED

*Extra expenditure on the construction of Reed Storage Platforms*

Tenders were invited in April 1978 and based on the recommendations of the Tender Committee and final clearance given by the Indian Consultants in April 1979, an order for purchase of 3 units of Pneumatic Type Mounted Hydraulic Excavator and Handling Equipment required for handling, stacking and reclaiming wood and reed from the storage Platforms of the Kerala Newsprint Project of the Company was placed at the cost of Rs. 48.37 lakhs on firm 'A' on 29th June 1979.

The specifications for reed storage platforms were drawn up by the Indian Consultants in September, 1978 and approved by the foreign consultants in November 1978. Tenders were invited in February 1979 and the work order for construction of 34 platforms—26 of 40×15 metres and 8 of 45×20 metres—with longitudinal walls at 650 mm from the ground level at one end and 250 mm at the other, was awarded to the lowest tenderer on 6th June, 1979 at a total cost of Rs. 21.73 lakhs. In August 1979 it was decided to increase the number of platforms to 44—26 of 40×15 metres and 18 of 45×15 metres—in order to increase the storage capacity necessitated by actual bulk density of reeds received from the Forest Department.

In October/November 1979, when work on 15 platforms was nearing completion, the foreign consultants, on the basis of demonstration of a similar equipment, observed that :

- (i) the equipment already ordered would not be in a position to place reeds on the entire reed stacking area from outside because of reach limitation of the machine;
- (ii) the side walls were too high to allow the machine to enter into the platform; and

- (iii) the walls were not shaped properly for rubber tyres to work against and the soled area between the walls required strengthening for operation of the equipment inside the area.

The reed storage platforms were, therefore, redesigned in November 1979 to reduce the height of wall from 650 mm at one end and uniformly to 250 mm. The cost of a modified platform after redesigning worked out to Rs. 45,647. However, 15 platforms, which were almost complete, were reconstructed (October 1980) at a cost of Rs. 68,202 per platform *i.e.* involving an extra cost of Rs. 22,555 per platform.

Thus, had the reed storage platforms been constructed after taking into account the limitations of the equipment, the extra expenditure of Rs. 3.38 lakhs incurred on the reconstruction of 15 platforms which were already nearing completion could have been avoided.

The Management stated (April/October 1981) as follows :---

- (i) The original design drawings and the estimates were prepared on the basis of data available and adopted on experimental basis since this sort of stacking was being done for the first time.
- (ii) The onus of sorting out the limitations in reach and height lay on the Indian Consultants.
- (iii) Limitations of the equipment could not be considered by the Indian Consultants at that time since the order of the equipment was yet to be placed.
- (iv) As far as the matter of reed handling was concerned, HPC could neither rely on foreign consultants nor on Indian Consultants as this type of handling was no where designed and performed successfully in the world. As a matter of fact, at the time of placement of order for equipment, HPC had doubt of its success regarding stacking. Nobody was sure



that in actual practice what would be the methodology of reed storage as none had witnessed such type of handling.

In this connection it may be mentioned that the Indian Consultants were responsible for preparation of the specifications of the equipment as well as those of the platforms. As the final recommendation of the Indian Consultants for the equipment was made in April 1979, the requirement of the platforms in accordance with the specifications of the equipment should have been considered before placing the work order for construction of platforms on 6th June 1979.

(XI) HINDUSTAN PETROLEUM CORPORATION  
LIMITED

*Extra expenditure due to incorrect nomenclature in application  
for import licence*

Prior to formation of Hindustan Petroleum Corporation Limited (HPCL) in July 1974, Carbitol—an imported product—was being procured by ESSO from a local firm for manufacturing Heavy Duty Brake Fluid Oil. The specifications of Carbitol were listed (July 1967) in sheet No. 55 of the Raw Material Specifications Manual of ESSO. Still, an application made in April 1975 for import licence for 10 additives included “Butyl Dioxitolar Butyl Carbitol” instead of “Carbitol”. The import licence was received in May 1975. Stating that some of the items were incorrectly spelt out through oversight in the application for import licence, the company returned the licence to the Controller of Imports and Exports on 29th May 1975 to incorporate the correct names of four additives, including the above which was ammended as “Butyl Dioxitol or Butyl Carbitol”. The amended licence was received in August 1975. In the meantime, on 16th June 1975, a local purchase requisition for “Carbitol” was placed by the User Department and, to indentify the item, a reference to sheet No. 55 of Raw Material Specifications Manual was also made therein. The Purchase Department did not, however, link this requisition with the pending import licence.

In November 1975, the Company floated an enquiry for import of “Butyl Dioxitol” or “Butyl Carbitol” alongwith other additives. Only when, in response, one of the foreign suppliers offered (January 1976) the supply of “Carbitol”, the Purchase



Department realised the mistake and applied (April 1976) for amendment of the licence from "Butyl Dioxitol or Butyl Carbitol" to "Carbitol". The amended licence was received in June 1976. Thereafter on 15th July 1976 the Company floated fresh enquiry for import of 'Carbitol' with 16th August 1976 as due date of receipt of tenders. An order for actual purchase was placed in September 1976 and the additive was received, in December 1976. In the meantime, the Company had to resort to local purchase at higher rate to manufacture adequate Heavy Duty Brake Fluid to meet the market demands. The extra expenditure on local purchase of 50,000 Kgs. of the additive effected during 1976 amounted to Rs. 3.18 lakhs which could have been avoided if the Company had obtained import licence for the correct specification and placed the order in August 1975.

The Ministry stated (March 1979) that an application for importing "Butyl Carbitol/Butyl Dioxitol" was processed inadvertently under the impression that "Carbitol" and "Butyl Carbitol" were one and the same. It was only in February 1976 when an offer was received from a foreign supplier that it was realised that "Carbitol" and "Butyl Carbitol" were different products. Immediate action was then taken to amend the licence to read as "Carbitol". The delay was, thus, caused due to inadvertence and prompt remedial action was taken immediately on realising the error and imports were arranged at the earliest thereafter.

It may, however, be mentioned that the difference in nomenclature between the product applied for and the one required was too wide to be construed as being merely due to inadvertence. Further, the mistake could have been detected in June 1975 itself, if sheet No. 55 of the Raw Material Specifications Manual had been referred to on receipt of requisition from the User Department. Even after coming to know about the mistake in February 1976, the Company did not take prompt action to get the import licence amended, as it approached the Ministry of Petroleum and the Chief Controller of Imports and Exports

for the amendment in April 1976 only. Had prompt action been taken and the order for the purchase placed on the basis of offers received in January 1976 in response to the enquiry floated in November 1975, the Company could have obtained supplies by May 1976 and at least avoided the extra expenditure of Rs. 1.08 lakhs out of Rs. 3.18 lakhs mentioned in sub-para 2 in the local purchase of 17038 Kg. of Carbitol made during the period from June 1976 to December 1976.



## (XII) HINDUSTAN PHOTO FILMS MANUFACTURING COMPANY LIMITED

### 1. *Avoidable loss due to grant of unintended benefit to distributors—Rs. 7.13 lakhs*

In terms of the Tamil Nadu Sales Tax Surcharge Act, 1971, a surcharge on sales tax is payable on the sale or purchase of goods within Madras City and certain other specified towns but not in Ootacamund where the Company has its factory. Since inception the Company was distributing its products to the distributors at Madras through its Sales Office at Madras and thus the sales attracted the surcharge. According to the agreements entered into with the distributors on various dates (which were terminated on 30th June 1978 on the Company undertaking direct distribution), the Company was entitled to fix the distributors' price as well as the ultimate price to the consumers to be charged by the distributors from time to time. The ultimate price to the consumers, *i.e.* the retail price, as fixed by the Company, was inclusive of excise duty, sales tax, surcharge and distributors' commission; the commission was deducted from the retail price while invoicing the distributors. It was thus clearly understood between the Company and the distributors that the latter was entitled only to the commission as specified by the Company.

From December 1974 onwards the Company also started supplies from Ootacamund and upto February 1975 recovered the surcharge from the distributors. However, since surcharge was not leviable on the sales at Ootacamund the Company refunded an amount of Rs. 0.86 lakh to the distributors in March 1975. It was pointed out in audit (November 1975) that this resulted in an unintended benefit to the distributors since it was not passed on to the consumers; the Company agreed (January 1977) to recover the surcharge both for the past and future periods. The total surcharge included in the sales from

Ootacamund to 4 distributors upto 30th June 1978 worked out to Rs. 7.35 lakhs of which only Rs. 0.22 lakh were recovered from one of the distributors, from whom the total amount due was Rs. 3.22 lakhs. In November 1979, while settling the out-standings from some of the distributors, the Company, however, agreed to withdraw its claims of surcharge amounting to Rs. 3.69 lakhs from two of the distributors on the ground that according to these distributors, the agreement did not bar them from earning the extra amount and the Company had not been put to any loss on account of non-recovery of surcharges. The surcharge amounting to Rs. 3.44 lakhs due from the other two distributors also remained unpaid (December 1981).

Since the retail price remained the same, whether the supply was from Ootacamund or Madras, the commission to the distributors should also have remained the same for sales from different outlets. Thus, the benefit arising out of non-applicability of surcharge on sales at Ootacamund ought to have legitimately accrued to the Company and not to the distributors.

In order to take advantage of the non-applicability of surcharge in the case of sales from Ootacamund, the company ought to have increased the distributors' price for supplies from Ootacamund to the extent of the surcharge. Failure to do so resulted in un-intended benefit to the distributors and consequent loss of revenue of Rs. 7.13 lakhs to the Company.

## *2. Loss on Account of Delay in Implementation of Increase in Selling Price—Rs. 1.09 Lakhs*

The Company increased the selling prices of its products from 10th December 1979 on the basis of the decision of a Committee of Directors as authorised by the Board of Directors in November 1979. The price increase and its implementation from 10th December 1979 were also reported to the Board on 15th December 1979. The increase was, however, not given effect to by the Bombay Region of the Company till 13th



December 1979 in spite of specific instructions issued on 8th December 1979 to that effect from the Marketing Division in view of a telex issued by the Chairman of the Company asking the Regional Manager not to give effect to the price increase. This resulted in a loss of Rs. 1.09 lakhs mostly due to heavy sales on the 11th and 12th December 1979.

On this being pointed out in audit in April 1980 and again in September 1980, the matter was brought to the notice of the Board in October 1980, who desired that "in view of the fact that the instructions issued by the erstwhile Chairman and the Managing Director were contradictory ..... legal opinion may be sought as to whether any personal liability on the part of the Chairman would be attracted". The legal opinion obtained in December 1980 stated that "the loss ..... is directly attributable to the action of the then Chairman sending a telex asking the Regional Manager not to give effect to the price increase" and that "there are, therefore, enough grounds to think that the actions by the former Chairman are 'ultra vires' of his powers as a Director". It was reported to the Board (December 1980) that the legal opinion had been sent to Government. As regards the suggestion of the Board that the Managing Director might consider taking appropriate disciplinary action against the Regional Sales Manager concerned for not having carried out the instruction of the Management in regard to price increase, the Management stated (November 1981) that a Committee appointed to conduct the enquiry had found him guilty of all the charges and that a final decision would be taken shortly. Further developments are awaited (December 1981).

The Ministry stated (December 1981) that "As regards the legal opinion obtained by the Company in December 1980 as to whether any personal liability on the part of the Chairman would be attracted, it has now been clarified by the Management that no formal orders of the Government were sought by the Company on this legal advice. However, the matter is receiving serious consideration of the Government".

### (XIII) INDIAN OIL CORPORATION

#### 1. *Extra Expenditure on Purchase of 6.6 K.V. Cables*

On 30th September 1977, Engineers India Limited (Consultants) invited quotations, both priced and unpriced (technical), from four firms for purchase of 6.6 KV (U.E.) Aluminium unscreened cables for the Mathura Refinery Project with the due date of receipt as 28th October 1977 and validity upto 26th January 1978. On opening the unpriced (technical) quotations on 1st November 1977 it was noticed that one of the firms M/s. 'U' had quoted alternatively for screened cables also. On 24th November 1977 the Consultants asked this firm to send technical details of screened cables by 28th November 1977. No reference was, however, made simultaneously to the other three firms. The technical details from M/s. 'U' were received around 7th December 1977. Thereafter the Consultants on 19th December 1977 wrote to all firms, including M/s. 'U' who had already quoted, to send their quotation for cables with core and conductor screening by 30th December 1977 and to extend the validity of the offer upto 15th February 1978. The firms sent their offers between 30th December 1977 and 21st January 1978. They also agreed to extend the validity of their offers upto 15th February 1978.

The technical evaluation of these offers was completed by the Consultants in 13 days *i.e.* by 6th February 1978. Considering that commercial evaluation would not be over by 15th February 1978, the Consultants asked all the four firms to extend the validity period upto March end. While two firms agreed to extend the validity period without any revision in their quotations, one firm M/s. 'U', extended it with revision in prices and the



remaining one declined to extend the validity period. On 27th February 1978 the Consultants opened the priced quotations and noticed that the rates of M/s. 'U', though revised, were the lowest. The order was placed on this firm for purchase of Aluminium screened cables valued at Rs. 33.95 lakhs on 26th July 1978, a letter of intent having been issued in April 1978 (the period of validity of the offer had meanwhile been extended to end of April 1978). The increase in the rates of M/s. 'U' compared to the original offer of theirs amounted to Rs. 4.42 lakhs.

Had the Consultants included screened cables as an alternative in the original enquiry, or even on opening the technical details on 1st November 1977 written to all firms immediately to send the quotation for screened cables instead of first writing for technical details to M/s. 'U' and then to the other firms on 19th December 1977 (*i.e.* after 48 days of opening the technical quotation), no extension of the quotations after 15th February 1978 would have become necessary, and the extra expenditure of Rs. 4.42 lakhs due to revision in prices by the firm, M/s. 'U' could have been avoided.

The Consultants stated (February 1979) :

"Normally for a low resistance earth system like Mathura Refinery Project, screened cables are preferred to unscreened cables. However, while issuing enquiry for subject cables, it was not certain that for 6.6 KV system, all the vendors will offer screened cables, since IS-1554 Part 2 does not stipulate screening. Hence, there was every possibility that the vendors might not have quoted even if we had specified screening of cables in the original enquiry....."

The Ministry stated (November 1980) :

"Since the specifications No. IS-1554 prescribed for these cables did not stipulate screening, EIL did not know at the time of tendering, whether any party would be in a position to supply Screened Cables which were more suited for low resistance earth system

like Mathura Refinery. However, when one party had offered for this item also, it was decided in the better interest of the project to opt for Screened Cables. We in the Ministry also do not find anything wrong in IOC/EIL having gone in for a better suited material for Mathura conditions..... In the instant case, the delay in processing the case had occurred due to the fact that the specifications had to be changed after the receipt of the initial offers in this regard by EIL/IOC. This change had to be resorted to in the larger interests of the project. It may also be noted that since the prescribed specifications in this regard did not stipulate screening, EIL could not be expected to invite tenders for Screened Cables. We are, therefore, of the opinion that the additional expenditure IOC had to incur on this account should be condoned. In view of this we would request you to kindly consider dropping of the draft para."

The above contentions are not tenable since, as observed in sub-para 2, the Consultants knowing that screened cables were better could have asked for an alternative quotation for screened cables in the tender enquiry of 30th September 1977 itself. Even later, the Consultants could have called for priced and unpriced offers including technical particulars from all the four firms immediately after opening the unpriced offers on 1st November 1977 and observing that one of the firms had offered screened cables, instead of writing to that firm only for technical particulars on 24th November 1977. The tenderer got an opportunity to increase the price because of the extension sought in the period of validity for the second time.

2. *Payment of laytime charges amounting to Rs. 2.60 lakhs to the tanker owners*

The Company hired a tanker on voyage charter for transport of Furnace Oil from Basrah to Bombay. The tanker arrived at



the load port on the 24th September 1974 and notice of readiness was served on the same day. The notice was, however, accepted by the suppliers on the 4th October 1974. The loading was commenced on the same day and was completed on the following day *i.e.* the 5th October 1974. The tanker incurred laytime charges (hire charges at charter party rates demanded by the shipowners from the Company for the time taken in excess for loading of the cargo) amounting to \$ 52328 at the load port for its detention from 24th September 1974 to 4th October 1974.

The Company received 'load port time sheet' duly signed by the master of the vessel and the suppliers on 23rd October 1974. As per international practice, the suppliers record on the load port time sheet all the reasons for delay to the tanker at the load port, especially ones which would prove that the time lost in the vessel at the load port was not to their account. Where no reasons are recorded on the load port time sheet, it is to be assumed that the suppliers accept the delay to the tanker at the load port. The load port time sheet received by the Company did not contain any reasons for the delay and it was, therefore, assumed by the Company that the suppliers had delayed making arrangements for the loading of the product. The load port time sheet was, however, forwarded by the Shipping Department of the Company to the Accounts Department for lodging a claim with the suppliers in May 1975 only, *i.e.* after a delay of 6 months.

The Company, thereupon, raised a claim in July 1975 for laytime charges of \$ 52328 on the suppliers for delay in loading. In September 1975, the Company was informed by the suppliers that the claim had become time barred. Since there was no provision in the charter party stipulating any time limit for lodging the claim, the Company again took up the matter with the suppliers. The suppliers informed the Company (October 1975) that as a general rule laytime claims were to be submitted within 60 days of the date of bill of lading and

that their books had been closed. The Company, however, pursued the claim and the matter was discussed by the General Manager (Supplies) of the Company with the suppliers during his visit to Baghdad in August 1976. The suppliers in September 1976 stated that the claim should have been submitted within 60 days of the bill of lading, but later in December 1976 informed the Company that the delay at the load port from 24th September 1974 to 4th October 1974 was due to non-payment by the owners of the port dues to the authorities at the load port and this was got confirmed in March 1977 from the Port Authorities.

In the meantime, the tanker owners had submitted their claim for laytime to the Company in October 1975 for \$ 56311. Since the amount was not in agreement with the Company's calculations, the matter was discussed with the representative of the tanker owners in August 1976. On the basis of discussions, a settlement was arrived at for \$ 44391 and on receipt of an amended invoice from the tanker owners in September 1976 the payment was released to them in October 1976.

As the responsibility for the payment of port dues was on the tanker owners, the Company took up the matter in January 1977 with the owners for the refund of the laytime charges. The owners rejected the claim initially, but later intimated (March 1977) that they were prepared to consider authenticated evidence of the reasons for detention of the tanker. They also pointed out that the Company had a reasonable opportunity and sufficient time, prior to their discussions in August 1976, to obtain all the necessary information from the Company's own source to protect their interest, instead of trying to renege from the previous settlement. The Company, thereafter, forwarded the relevant documents to the owners and, simultaneously, preferred in April 1977 a claim for refund of \$ 29131 paid as laytime charges for the delay of 156 hours at the load port, this delay being on account of non-payment of port dues by the tanker owners. There has been no response



from the owners so far (December 1981). Recourse to arbitration was not taken by the Company on the advice of their Solicitors (April 1978).

The Management stated (October 1979) that as the load port time sheet did not contain any specific mention about the reasons for the delay and as the suppliers had rejected the claim on the ground of the claim being time barred, there was no reason to doubt that the tanker owners claim was not genuine. They also stated that the question whether legal action should be initiated against the tanker owners was under consideration of the Corporation.

The payment of the entire claim for laytime charges, including \$ 29131 (Rs. 2.60 lakhs approx.) to be borne by tanker owners, was mainly attributable to the delay in sending the documents by the Shipping Department to the Accounts Department which in turn delayed lodging of the claim with the suppliers, enabling the suppliers to reject the claim on the ground of 'time bar'.

This paragraph was issued to the Ministry in January 1980, but remarks have not been received so far (December 1981).

#### (XIV) INDIAN RARE EARTHS LIMITED

*Available expenditure of Rs. 15.22 lakhs due to drawal of loan much in advance of requirement.*

In March 1975, the Government of India sanctioned the Orissa Sand Complex Project (OSCOM) of Indian Rare Earths Limited with a total capital outlay of Rs. 3,230 lakhs. The funds for the project, in the form of equity and loans, are released out of the annual budget provisions of the Department of Atomic Energy based on the requirements intimated by the Company from time to time.

On a request from the Company, the Department of Atomic Energy released Rs. 50 lakhs as equity in November, 1975 and Rs. 205 lakhs (Rs. 75 lakhs as equity and Rs. 130 lakhs as loan) in March, 1976. Against this total release of Rs. 255 lakhs, the Company incurred an expenditure of Rs. 116 lakhs upto 31st March, 1976 and of the unspent balance of Rs. 139 lakhs, it invested Rs. 130 lakhs in term deposits for periods ranging from one month to ten months during the period from April, 1976 to December, 1976.

In the meantime, as there had been substantial increase in the tentative revised estimated cost of the OSCOM Project from the initial Rs. 3,230 lakhs to Rs. 7,900 lakhs (later increased to Rs. 8,567 lakhs in January, 1977), the Planning Commission indicated in June, 1976 that no fresh commitments on the OSCOM Project be undertaken till the final decision was conveyed after 'de novo' re-examination of the viability of the Project even though



there was budget provision of Rs. 545 lakhs for it for the year 1976-77. In November, 1976 the Department of Atomic Energy enquired from the Company whether release of Rs. 150 lakhs would be sufficient considering that the total expenditure incurred and the commitments amounted to Rs. 280 lakhs and no fresh major commitments were envisaged till the end of 1977. In reply, the Company stated that further commitments for Rs. 235 lakhs would be required to make a payment of 10% for the Acid lakhs would be required to make a payment of 10% for the Acid Regeneration Plant in the event of finalisation of global tenders before March, 1977. On the basis of these requirements, the Department was requested to release Rs. 400 lakhs immediately out of their budget provision of Rs. 545 lakhs.

The Department of Atomic Energy released an amount of Rs. 300.00 lakhs on 9-3-1977 as loan to the Company and also advised the Company to carefully review the position before making new major commitments. On 17th March, 1977, the Planning Commission also desired the Department of Atomic Energy to examine in more detail the advantages of producing synthetic rutile vis-a-vis T 102 and give its views as to whether any serious problems were likely to arise by postponing the project by one or two years. It was also to be considered whether priority was to be given to this project vis-a-vis projects in sectors such as irrigation, power and fertilizers. In spite of this, the Department released a further amount of Rs. 245.00 lakhs (balance remaining out of the budget provision for the year 1976-77) and the Company drew the amount as loan on 30th March, 1977. Thus, a total amount of Rs. 545.00 lakhs was drawn by the Company as loan as against the estimated requirement of Rs. 400.00 lakhs, intimated by the Company to Department of Atomic Energy in November, 1976.

The details of funds obtained by the Company from Government for the OSCOM Project and the expenditure incurred are summarised below :—

	Date of receipt	1975-76	Date of receipt	1976-77	Date of receipt	1977-78
Equity	5-11-75	50.00	..	..	..	..
	29-3-76	75.00	..	..	30-3-78	72.00
Loan: (i) In cash	30-3-76	130.00	9-3-77	300.00	30-3-78	217.00
			30-3-77	245.00		
(ii) By adjustment towards interest capitalised on earlier loan	..	..	30-3-77	13.32	9-3-78	30.75
					30-3-78	38.45
<b>TOTAL</b>		<b>255.00</b>		<b>558.32</b>		<b>358.19</b>
Expenditure		116.00		102.00		304.00
Balance at the end of the year		139.00		595.32		649.51

The Company invested the entire amount of Rs. 545.00 lakhs drawn as loan in the month of March, 1977 in term deposits with banks for periods ranging between 15 and 180 days, followed by further renewals, at interest rates ranging from 3 to 5½%. The Company earned a total amount of Rs. 18.96 lakhs as interest on Rs. 545.00 lakhs invested during 1977-78 (Rs. 8.93 lakhs + Rs. 10.03 lakhs on deposits of Rs. 300.00 lakhs and Rs. 245.00 lakhs respectively). As the Company was required to pay interest at 10.25 per cent per annum on these loans from the Government it had incurred interest liability of Rs. 57.98 lakhs upto 31st March 1978 on the loan amount of Rs. 545.00 lakhs. The Company thus sustained a loss of Rs. 39.02 lakhs by way of interest liability from the date of drawal of loan upto 31st March, 1978. Of this, loss of Rs. 15.22 lakhs could have been avoided if the Company had not drawn further loan of



Rs. 245 lakhs on 30-3-1977.

Payment/drawal of money in excess of requirements resulted also in locking up of scarce developmental funds.

The Department of Atomic Energy stated (April 1981) that "..... the Company had drawn the amount in the normal course of project implementation, with a view to ensure timely completion of the work. The events leading to the freeze on the project implementation in April, 1977, were completely unexpected and were actually responsible for the accumulation of unspent balance in the hands of the Company at the end of March 1977. As these developments could not be foreseen and were purely attributable to the need for a careful re-evaluation of the project in view of the substantial increase in the project cost estimates, the Company had to retain the balance which they had drawn in good faith, while at the same time making efforts to have the restrictions on the commitments withdrawn. As soon as the freeze was withdrawn in May 1978, the Company again took up the implementation of the project earnestly. It may be seen from the foregoing that it would not have been practical to draw the loan periodically as and when money was actually required for payment. In the circumstances, the Management did the best possible means of investing it in the short-term deposits".

In this connection, it may be stated that as early as in June, 1976, the Planning Commission had indicated that no fresh commitments on the Project be undertaken till final decision was taken. Further in March, 1977 the Planning Commission had asked the DAE to examine whether the project could be postponed for one or two years. The question of giving priority to this project *vis-a-vis* projects in sectors such as irrigation, power and fertilizers was also under consideration. Despite these considerations and without a decision to implement the project at the revised cost, payment of Rs. 545 lakhs had been made to the Company.

## (XV) INDIAN TELEPHONE INDUSTRIES LIMITED

### *High incidence of demurrage charges*

The Company imports various materials and machinery from different countries and the Shipping and Clearance Offices (SCOs) of the Company at Bombay and Madras arrange for their clearance and despatch to its various units. The Company has its own bonded warehouse at Madras. At Bombay, it has the facility of bonding in the warehouses of the Central Warehousing Corporation. When the Company is not in a position to take delivery or bond the material within the permissible free period of 3 to 7 days, demurrage has to be paid to the port authorities.

The value of imports made and the demurrage paid by the Company during the 4 years 1976-77 to 1979-80 are given below :

Year	No. of cases	Imports value on CIF basis (Rupees in lakhs)	Demurrage paid		Percent- age of cases where demurrage was paid to Total Col. 4 to Col. 2)
			No. of cases	Amount (Rupees in lakhs)	
1976-77	1456*	1009	1402*	7.14*	96
1977-78	2021	861	1847	8.17	91
1978-79	2322	911	2290	12.06	99
1979-80	2653	1447	2387	26.98	90
Total	8452	4228	7926	54.35	94

\*Does not include 589 sea consignments imported at Madras and demurrage of Rs. 2.04 lakhs was paid on some of them as details are not available.

A scrutiny of 115 cases involving demurrage of Rs. 20.66 lakhs relating to the period July 1976 to April 1980 wherein the



demurrage paid exceeded Rs. 5,000 in each case showed that demurrage was paid due to one or more of the following reasons :

- (i) Late receipt of funds by the SCOs from the units of the Company for payment of freight, harbour charges and customs duty.
- (ii) Late receipt of complete documents from the units such as Banker's certificate, import licence, NMI (Not manufactured in India) Certificate, certificate of country of origin, invoice, packing list, catalogue, bill of lading, etc.
- (iii) Discrepancies in the documents referred to above.

The extent of delay in bounding/clearance of the cargo in the above 115 cases was as under :

Extent of delay	No. of cases	Amount involved (Rs. in lakhs)
1 to 50 days	41	6.33
51 to 150 days	55	10.80
151 to 200 days	15	3.02
Over 200 days	4	0.51

The details of three cases of payment of demurrage exceeding Rs. 1.00 lakh each are furnished below :—

Item imported and CIF value	Date of arrival of consign-ment	Date of bonding/ clearance	No. of days for which demurrage paid	Amount of demurrage (Rupees in lakhs)
(a) Telephone Dials Rs. 70.10 lakhs	14-4-79	6-8-79	107	2.42
(b) —do—	21-3-79	7-8-79	101	1.16
(c) Repeater Housing Rs. 7.75 lakhs	10-4-79	8-6-79	51	1.14

(a) and (b).—The Bangalore Unit of the Company placed an order in October 1978 on a Japanese firm for 2.5 lakh telephone dials with a CIF value of Rs. 70.10 lakhs, of which the

first batch of 1 lakh dials was to be shipped to Bombay by December 1978/January 1979 to meet the requirements of the Naini Unit. The Shipping and Clearing office of the Company at Bombay requested both the Bangalore and Naini Units in March/April 1979 for funds amounting to Rs. 20.00 lakhs for payment of customs duty and sea freight in respect of the two consignments containing 75,000 dials which were scheduled to land in March/April 1979. The consignments actually arrived on 21-3-1979 and 14-4-1979 respectively but could not be cleared for want of funds/want of instructions from the Naini Unit for bonding the materials in case funds for customs duty were not available. The point as to which Unit should bear the customs duty was not decided till 11th May 1979 when it was ultimately decided by the Bangalore Unit that the Naini Unit should bear the customs duty. The Naini Unit, however, could not provide the necessary funds to the full extent and finally issued instructions on 12-7-1979 for bonding the materials. As the bill of entry for immediate delivery had already been prepared in the meantime a fresh bill of entry for bonding had to be filed with the special permission of the Collector of Customs and ultimately the consignments were bonded on 6-8-1979/7-8-1979, thus involving an avoidable delay of more than 100 days and demurrage amounting to Rs. 3.58 lakhs.

In the case of (c) above, the main reason was non-provision of funds to the shipping office towards customs duty and sea freight amounting to Rs. 7.38 lakhs. Had atleast the sea freight amounting to only Rs. 0.48 lakh been provided in time, the consignment could have been bonded without incurring demurrage.

When the payment of large amounts of demurrage in 1976-77 and 1977-78 was referred to the Ministry, they stated (September 1980) that demurrage had to be paid due to the following reasons :

- (a) Difficult ways and means position of the Company during 1976-77 and 1977-78.



- (b) Inadequacy of the free period allowed by the Ports for clearance of consignments.
- (c) Necessity of producing various documents for Port and Customs clearance.

The Ministry also stated that the Company had already taken the following remedial steps :

- (i) Adequate financial allocations were being made to the SCOs for speedy clearance.
- (ii) A Private Company (Air Consolidation Services) had been appointed as clearing agent at Madras from July 1977 for effecting prompt delivery of documents/information and timely clearance of air consignments.
- (iii) A Customs Appraiser had been engaged at Madras with effect from November 1978 on 'cost recovery' basis to facilitate quicker assessment of customs duty.
- (iv) Separate bank accounts had been opened at Bombay and Madras in August/September 1979 for operation by the SCOs to facilitate quicker payment of freight.
- (v) The clearance of consignments was being watched through periodical returns from SCOs.

Regarding the remedial steps reported to have been taken by the Ministry. The following points were noticed in Audit :

- (i) As regards allocation of funds even after 1977-78 funds for payment of custom duty had not been allocated before the expiry of the free period in 59 cases involving payment of demurrage for amount exceeding Rs. 5,000 in each case. The demurrage charges paid in these 59 cases amounted to Rs. 13.88

lakhs due to want of funds.

- (ii) The special arrangement made with the clearing agent (Air Consolidation Services) from July 1977 in Madras saved only the delay in handing over the airway bills to the Company. But timely clearance of the consignments which was still the responsibility of the Company, had not been possible due to other reasons detailed above. In as many as 80 out of 115 cases referred to, the documents were received by the SCOs from the units after a period ranging from 20 to 173 days beyond the date of arrival of the cargo. The demurrage charges paid in these 80 cases worked out to Rs. 12.53 lakhs.
- (iii) Even after the opening of separate Bank accounts from August/September 1979 in favour of the SCOs for payments of freight, delays in clearance due to delay in the replenishment of funds by the Units were noticed in 16 cases.
- (iv) In the case of consignments cleared at Madras, the demurrage paid during 1978-79 and 1979-80 was Rs. 5.54 lakhs and Rs. 11.80 lakhs respectively as against Rs. 6.13 lakhs and Rs. 3.07 lakhs paid during 1976-77 and 1977-78. The engagement of the Customs Appraiser on payment of cost from November 1978 besides the other arrangements made, had not improved matters.

Thus, the steps taken by the Company were not effective. The demurrage paid in 1978-79 and 1979-80 was actually more than the amount paid in 1976-77 and 1977-78 and it was unusually high (Rs. 26.98 lakhs) in 1979-80. Absence of advance action on the part of the units to furnish the necessary documents in time to the SCOs to meet the requirement of Customs and provide funds for freight had largely contributed to the payment



of demurrage. In so far as Bombay was concerned the following factors also added to the problem :

- (a) Delay in the receipt of documents retired through the Banks from the units in the case of sea consignments.
- (b) Non-observance by the Company of certain import restrictions like failure to import canalised steel items through Steel Authority of India Ltd.
- (c) Absence of instructions from the Units for bonding when funds for customs duty could not be arranged.
- (d) Preparation of bond bills of entry in the absence of instructions from the Units even in the cases when the materials were urgently required for production.

## (XVI) MISHRA DHATU NIGAM LIMITED

*Avoidable payment of Rs. 16.91 lakhs on inspection charges of imported equipment made to foreign agencies without utilising the services of the Consulting Engineers*

As per clause 11 of Article 'B' of the Consultancy Agreement entered into with M/s. 'D' by Government of India in October 1973 and assigned (November 1974) in favour of Mishra Dhatu Nigam Limited (Company) after its incorporation in November 1973, the Consulting Engineers were required to inspect plant and equipment at the manufacturers works and issue inspection certificates and also witness the test runs of the Plant and equipment wherever necessary. The amount of Rs. 130 lakhs fixed as total remuneration payable to the Consulting Engineers covered *inter alia* the above task assigned to them under the agreement; the amount towards this job provided in the total remuneration was not ascertainable. In addition, according to Article 'E' of the agreement all expenses on their foreign travels were to be borne by the Company. For this purpose it was estimated that 30 foreign trips involving 15 man months of stay abroad for the staff of the Consulting Engineers would be required. According to Company's estimate, each round trip would have cost the Company Rs. 15,000 and each day's stay abroad @ \$ 90 which would approximate the reimbursable expenses to Rs. 8 lakhs in addition to the fees for this purpose included in the total remuneration of Rs. 130 lakhs.

Although the responsibility of inspecting the imported equipment devolved on the Consulting Engineers as per the agreement, the Company decided in June 1977 that M/s. 'A' of France who were one of the three suppliers of know-how and who were considered to be experienced in this field, be requested to undertake this work on behalf of the Company. Further, on the advice



and recommendation of M/s. 'A' the appointment of another agency viz., M/s. 'B' of France was also considered for the inspection of all critical components of Forge Press since M/s. 'A' expressed their inability to undertake inspection of this item. The decision to entrust the inspection role to the two agencies was taken on the following considerations :—

- (i) The technical expertise of M/s. 'B' with its world wide net work.
- (ii) The practical difficulties in communication and co-ordination that would have jeopardised timely inspection resulting in avoidable delay in equipment delivery if the inspection work were to be carried out by the consulting engineers.
- (iii) Considerable financial saving to the Company in totality.

Accordingly M/s. 'A' and M/s. 'B' of France were appointed in September 1977 and March 1978 respectively as the agencies to undertake inspection. By this action the Company absolved unilaterally the Consulting Engineers 'D' of the responsibilities of inspection of Plant and equipment at manufacturers' works and certification thereafter, cast on them by the agreement for which *inter alia* they were to be paid a consolidated sum of Rs. 130 lakhs.

Sanction was obtained from Government of India in December 1977 for release of foreign exchange to the extent of Rs. 10.39 lakhs to be paid to M/s. 'A' and 'B' as indicated below :—

	Rs. in lakhs
(i) M/s. 'A'	3.78
(ii) M/s. 'B'	6.61
	10.39

While obtaining the Board's approval to the proposal, the Management of the Company had informed the Board of only the savings in expenses reimbursable to M/s. 'D' but did not mention the amount included in the total remuneration of Rs. 130 lakhs payable to and intended for such inspection services to be rendered by them.

Besides the above, additional sanctions of Rs. 1.92 lakhs and Rs. 4.60 lakhs were obtained from the Government of India in March and April 1979 respectively to cover further payments to the foreign agencies. Thus, the total amount payable on this account was Rs. 16.91 lakhs. Against this, the Company had (March 1982—Provisional) paid Rs. 15.37 lakhs (Rs. 7.67 lakhs to M/s. 'A' and Rs. 7.70 lakhs to M/s. 'B').

The Company and the Ministry in their replies of March/April 1980 sought to justify the appointment of the foreign agencies on the following considerations :—

- Although the collaboration agreement was concluded in October 1973, clear picture of the position of equipment, supplies was known only after October, 1974 when the Consulting Engineers submitted Engineering Report for the Project; the intricacies and magnitude of the Inspections could not be ascertained until actual procurement action commenced in March 1976. Keeping this in view and the number of trips that would have to be made to suppliers'/sub-contractors' works for inspection of equipment, it was decided in June 1977 not to utilise the services of the Consulting Engineers for this purpose.
- The experience of the Company in dealing with the Consulting Engineers made them come to the conclusion that they would be making about 500 visits which would have cost Rs. 90 lakhs.
- Apart from the question of cost there was also the question of impracticability of the Consulting Engineers attending to Inspections at short notice or



making prolonged stay at the site in case the equipment was not ready by the time they reached the works.

- The scope of inspection contemplated in the agreement was different from the work entrusted to the foreign agencies.

It was also stated by the Ministry that :—

- The question of effecting proportionate deductions in the fees paid to the Consulting Engineers was not considered prudent at that stage as they were very much interested in undertaking the job and would have perhaps insisted upon assigning that work to them in terms of the agreement.
- The Consulting Engineers had preferred certain escalation claims due to revised scope of the Project which were under consideration of the Government and the element of inspection charges in respect of imported equipment included in the remuneration payable to them would be kept in view while settling their claim.

The fact, however, remains that the Consulting Engineers were absolved of the contractual obligations for the inspection of the plant and equipment at manufacturers' works and issue of inspection certificate without deduction of any amount resulting in payment (amount not ascertainable since the break up of the total remuneration of Rs. 130.00 lakhs was not available) to the Consulting Engineers for the work not undertaken by them. At the same time the Company incurred expenditure amounting to Rs. 16.91 lakhs (out of which Rs. 15.37 lakhs has already been paid) for the same item of work. It is relevant to note that the claim of the Consulting Engineers (for escalation) referred to by the Ministry (preferred in April 1978) was earlier turned down by the Ministry in July, 1979 as being "outside the terms of the contract".

## (XVII) MODERN BAKERIES (INDIA) LIMITED

### *Extra expenditure due to under assessment of requirements.*

The requirement of soya protein concentrate for the manufacture of bread by all the eleven units of the Company during 1976-77 was estimated by the Management at 840 tonnes on the basis of the consumption of the concentrate at 2 per cent in white sandwich bread and breads produced under Special Nutrition Programme and tenders for supply of soyabean protein concentrate were invited in March 1976.

With a view to improving the crumb colour of white bread, the Company instructed (April 1976) three units at Chandigarh, Delhi and Kanpur to reduce the level of soya protein concentrate from 2 per cent to 0.5 per cent in the formulation for white sandwich bread as an experimental measure for three months in order to watch the consumer reaction. In the wake of this decision to temporarily reduce the addition of soya protein concentrate in three units, the Management erroneously reduced the total requirement thereof from 840 to 210 tonnes without taking into account the facts that no reduction in the use of the concentrate was contemplated in the bread produced under Special Nutrition Programme and that the reduced percentage was applicable to three units for three months only. On the basis of the tenders invited in March 1976, the Management placed orders in May 1976 for 210 tonnes of the concentrate on the two lowest tenderers of Indore (170 tonnes) and Aligarh (40 tonnes) at Rs. 2195 and Rs. 2150 per tonne respectively plus taxes. The Aligarh firm supplied 40 tonnes of soya concentrate within three months (*i.e.* July to September 1976) which were allotted to Delhi and Kanpur units. The Indore firm supplied 187 tonnes of Soya Concentrate.



The requirement of the concentrate in Delhi and Kanpur units for the next nine months (from October 1976 to June 1977) was assessed as 120 tonnes and the Aligarh firm stated on 5th October 1976 that it could supply an additional quantity of 130 tonnes to these units on the terms and conditions at which supply of 40 tonnes was made and requested for quick instructions. The requirement was, however, later on reduced to 70.2 tonnes after taking into account the stock position at Delhi and Kanpur units and the Managing Director accorded approval for purchase of this quantity on 25th October 1976. The supply order dated 26th October 1976 on this firm was, however, despatched after about a month on 24th November, 1976, but the firm had, meanwhile, withdrawn its offer on 19th November 1976 on the grounds that the acceptance of the offer was not conveyed within 2/3 days as was requested by the firm during discussions with the Company's Materials Manager on 5th October 1976, and that the firm was not in a position to keep the offer valid indefinitely. The firm also pointed out that when their Manager personally contacted the Management on 16th November 1976, he was informed that no decision had been taken till then.

In December 1976, the requirements upto June 1977 of all the units were re-assessed as 190 tonnes and fresh tenders were invited in January 1977. The same two firms quoted Rs. 4350 per tonne plus taxes. To meet immediate requirements, two orders of 50 tonnes each were placed on 7th April 1977 and 13th May 1977 with the Indore firm against which a total quantity of 100.170 tonnes was supplied.

The under-assessment of the requirement by the Company, in the wake of the decision to reduce the use of soya protein concentrate in the production of white bread alone on an experimental basis for three months in 3 units only, resulted in an extra expenditure of Rs. 2.25 lakhs in the purchase of 100.170 tonnes of concentrate at higher rates. The extra expenditure could have been reduced by Rs. 1.61 lakhs, had the purchase

order for 70.2 tonnes been placed on the Aligarh firm expeditiously *i.e.* before the withdrawal of the offer by the said firm.

The Management stated (August 1979) that "possibly there was a mixup of papers delaying the despatch" of the purchase order for 70.2 tonnes to the Aligarh firm. The Ministry of Agriculture stated (November 1981) as follows :—

"The correct position is that the Management reduced total requirement to 210 tonnes based on estimated production of bread in the units. These calculations were not correct."



(XVIII) NATIONAL TEXTILE CORPORATION (TAMIL  
NADU & PONDICHERRY) LIMITED

*Utilisation of funds obtained from National Textile Corporation  
Limited (holding Company)*

For the implementation of modernisation and labour rationalisation schemes and also to meet the working capital requirements of individual mills, the Company has been receiving loans from time to time from the National Textile Corporation Limited (holding Company). On a test check of the accounts of the Company it was noticed that in two cases (discussed below) there was considerable delay in the transfer of funds by the subsidiary Company to the mills. Since the mills were using cash credit facilities from the banks at interest rates ranging from 14 per cent to 18 per cent the delay in the transfer of funds by the company to the mills resulted in the mills incurring avoidable expenditure on payment of interest amounting to Rs. 4.63 lakhs to the banks.

(i) On 30th March 1976 the company received a loan of Rs. 43 lakhs from the holding Company towards working capital of the mills. It did not, release the amount to the mills, but retained it in a current account in one of the scheduled banks. The amount was transferred to the various mills only in May—July 1976 with delays ranging from 53 to 118 days for various schemes *viz.* towards meeting working capital (Rs. 19 lakhs on 22nd to 26th May and Rs. 15 lakhs on 26th July 1976), modernisation programme (Rs. 4.76 lakhs on 24th May 1976) and labour rationalisation programme (Rs. 1 lakh on 26th May 1976). Had the Company transferred the amount to the mills instead of retaining it in a current account, the mills could have avoided payment of interest charges amounting to Rs. 1.37 lakhs on cash credit facilities.

(ii) On 8th June, 1976, the Company received from the holding Company another loan of Rs. 67.48 lakhs towards the implementation of labour rationalisation scheme. In this case too, the amount was initially deposited by it in a current account in one of the scheduled banks. Later, Rs. 60 lakhs were invested for 91 days w.e.f. 17th July 1976 in short term deposits earning interest at  $5\frac{1}{2}$  per cent. Of this, Rs. 10 lakhs were encashed on 24th July 1976 for payment to Maharashtra State Cooperative Marketing Federation towards cotton dues. On 19th October 1976 *i.e.* on expiry of the term, Rs. 50 lakhs were re-invested in short term deposits for 91 days. However, out of it, Rs. 40 lakhs were encashed during the period from 5th to 10th November, 1976 for making payment to Cotton Corporation of India towards cotton dues (Rs. 30 lakhs on 10th November 1976) and for meeting modernisation expenses of unit mills (Rs. 10 lakhs on 5th November 1976). The remaining amount of Rs. 10 lakhs also, on maturity, was utilised for payment of cotton dues. If the Company had transferred the amount initially to the cash credit account instead of retaining it in a current account, the mills could have avoided payment of interest charges amounting to Rs. 3.26 lakhs on the cash credit facilities.

The Ministry stated (September 1981) as follows :

- (i) during the period of the first loan, the office of the headquarters of the Company was in the process of being shifted from Madras to Coimbatore and the Company was in the initial stage of recruiting qualified and experienced personnel particularly for the finance and accounts functions.
- (ii) the subsidiary had adopted the basic rule that funds should be placed at the disposal of mills only after proper assessment of requirements as it was essential to ensure that the mills did not deploy funds in areas or for purposes which would not optimise the cost-benefits involved in such deployments. ....  
..... the delay in release of funds by the subsidiary



was because the assessment of the funds requirements had to be completed,

- (iii) the amount of the second loan was invested by the Company separately in a bank account so that the funds released for rationalisation purposes could not be diverted for either modernisation or for the working capital needs of the mills,
- (iv) unfortunately, during this period there was a substantial sum of money due to the Cotton Corporation of India and Maharashtra State Cooperative Marketing Federation on account of cotton purchases. The issue became more critical with these two bodies as they started charging a rate of interest in excess of 20% and compounding the same at monthly rates. Moreover, the bodies threatened to stop further supplies. In these special circumstances NTC(TNP) decided to temporarily divert money from labour rationalisation funds, though only for a temporary period.

The arguments given by the Ministry are not convincing for the following reasons :—

The Company need not have drawn funds from the holding Company till proper assessment of the requirements of the mills was made. Further, the Company was aware that it had to pay heavy interest charges on the amounts due to the Cotton Corporation of India and Maharashtra State Cooperative Federation for cotton purchases. It did not however, utilise these funds initially to pay the amounts due to these bodies but kept them in short-term deposits.

## (XIX) OIL AND NATURAL GAS COMMISSION

### 1. *Infructuous expenditure of Rs. 5.92 lakhs on hiring of equipment*

The Commission hired 7 $\frac{5}{8}$ " OD Turbo Drill and 6 $\frac{1}{4}$ " OD Drilling Jar from M/s. E, (USA) under a contract dated 30th October 1975 and Sperry Sun Equipment from M/s. S, (USA) under a contract dated 25th March 1976 for directional drilling in the offshore area. Under the two contracts, the rent was to be paid from the date of the equipment leaving the base at Dubai until their return. However, there was delay in the return of the equipment after release from the drillship, resulting in an avoidable infructuous expenditure of US dollars 70194 (Rs. 5.92 lakhs) on payment of rent for the period the equipment remained idle, as detailed below :—

#### (a) *7 $\frac{5}{8}$ " OD Turbo Drill and 6 $\frac{1}{4}$ " OD Drilling Jar.*

In December 1976, the Superintending Engineer of the Commission (Indentor) advised their Bombay Port and Liaison Office to return to Dubai certain items of equipment rented from M/s. E. The Bombay Port and Liaison Office returned, in January and February 1977, all items with the exception of the 7 $\frac{5}{8}$ " OD Turbo Drill and 6 $\frac{1}{4}$ " OD Drilling Jar. These two items were shipped on 1st April 1977 and the shipping certificate and copies of the bill of lading were despatched to M/s. E, USA on 14th April 1977. On 23rd April 1977, the firm requested the Commission to airmail the proforma invoice separately to enable clearance of the consignments. Again on 8th June 1977, the firm sent a telex that they had not received the proforma invoices and requested for immediate despatch so that they could get the goods cleared without any further loss of time. The proforma invoices were sent subsequently and the equipment was received back by the firm on 23rd July 1977.



As the contract was valid upto 28th February 1977, it was extended on 14th June 1977 for a period of five months from 1st March, 1977 to 31st July 1977 to facilitate the return of the rented equipment and payment of rental and other charges pertaining thereto.

Delay in returning the equipment thus resulted in avoidable expenditure of US Dollars 38405 (Rs. 3.26 lakhs) being the rent for the period 10th February 1977 to 22nd July 1977.

(b) *Sperry Sun Equipment*

On 16th March 1976, Sperry Sun Equipment was despatched from the base at Dubai by M/s. S. USA. On its arrival at Bombay, it was cleared in mid-sea from the Customs on a 'tranship permit' and taken direct to the drilling ship 'Shanandoah'. Consequently an import general manifest (required to be delivered by the ship master or the agent on arrival of import goods as per Section 30 of the Customs Act) was not prepared, a bill of entry (required to be presented in the prescribed form by the importer of goods other than goods intended for transit or transshipment as per Section 46 of the Customs Act) was also not lodged with the Customs.

The equipment was used for directional drilling from March 1976 to February 1977 after which it was sent from the drilling ship to the warehouse for being sent back to Dubai. The actual date of the receipt of the equipment on shore is not known as no import general manifest was lodged showing the equipment as having been brought to the shore by a particular boat. As it was not possible to have the equipment passed by the Customs for duty free re-export without an entry in the import general manifest of the supply boat which brought the equipment to the shore, the Commission applied to the Customs (through its shipping agent) in May 1978 for amendment of the manifest of the supply boat of 27th July 1977 from "No Cargo" to the mark and description of "Sperry Sun Equipment". After the amendment

of the manifest was allowed by the customs, a bill of entry was prepared and the equipment was air-freighted on 13th July 1978.

The delay in the return of the equipment by about 17 months after it was released from the drilling ship (due to the Commission not having followed the prescribed procedures) resulted in an avoidable infructuous expenditure of U.S. Dollars 31789 (Rs. 2.66 lakhs) on payment of hire charges for the equipment for the period it remained idle.

The General Manager (Ops.), Bombay Offshore Project instituted an enquiry in the matter on 24th May 1980. The enquiry officer in his report *inter alia* observed as under :

“The delay from February 1977 to September 1977 as far as Sperry Sun Equipment is concerned could have been avoided, if the indenter had taken personal interest in the export of rented item.....  
The shipping agent came to know about such an item lying in stores warehouse only casually by means of a reminder sent by the indenter in September 1977. The delay from September 1977 to June 1978 was *in toto* procedural and could not have been avoided because of the conflicting stands taken by the Customs Authorities. The delay could have been minimised from ONGC's side if instructions of Customs Authorities had been implemented in the initial stages by authorising Shipping Agents to act on behalf of ONGC by giving him financial guarantee and also making relevant entries on Local Sheet instead of insisting upon entries to be made on Transshipment Sheet.....

The items 6½" Drilling Jar and 7½" OD Turbo Drill were required immediately by drilling rig for Directional drilling and the department acted in good faith in putting the item on board. It is not clear



from the records whether the delay in despatch of items namely 6¼" Drilling Jar and 7¾" OD Turbo Drill were actually in use by the rig or were they kept in warehouse for export to Dubai. In fact quite a few equipments were taken on rental and they were returned in time to Dubai except for the two items mentioned in paragraph above. There appears to have been no procedural delays and the delay to despatch the same on 1st April 1977 was quite in order. However, the delay from 1st April 1977 to 23rd July 1977 could have been avoided if the contractor had airmailed the proforma invoices well in time. There was considerable delay in the receipt of proforma invoices and as a consequence of the same equipment could not be received back by the firm at Dubai."

The Ministry stated (December 1980/February 1981) that, as recommended by the Enquiry Officer, a Committee had been constituted to suggest ways and means for streamlining the procedure for import and re-export of hired equipment.

2. *Avoidable expenditure of Rs. 6.45 lakhs on the waiting of drillship—Shanandoah*

**The Bombay Off-shore Project** placed two orders on M/s. Camco Limited, London and M/s. Camco Inc., Houston—USA on 1st February 1978 for supply of 8 sets each of 3½" down-hole production equipment of UK and USA origin with the stipulation that the material should reach Bombay latest by the end of March 1978. Four sets of the equipment were required in third week of March 1978 for the completion of 4 production wells at platform 'B' of Bombay High.

On 8th February 1978 the Indian Agents of the Suppliers informed the Commission that according to the shipping schedule the material from UK and USA could be expected in India only

by the end of March 1978 and the second week of April 1978 respectively. As the delivery schedule did not suit the Commission, the Commission decided on 15th February, 1978 to airlift the minimum equipment required for completion of 4 production wells at platform 'B' of Bombay High. On 24th February, 1978 the Production Department of the Project furnished the list of equipment to be airlifted to the Stores and Purchase Department for immediate action so that the material could reach Bombay around 20th March, 1978. While issuing the telex instructions to the suppliers on 4th March, 1978 to airfreight the equipment, the Stores and Purchase Department omitted to include in the telex instructions 4 rolls of  $\frac{1}{4}$ " S.S. Control lines required for completion of the wells. The airfreighted equipment was received at Bombay on 1st April, and 4th April 1978. The inspection of the equipment was carried out only on 7th April 1978 and the material was despatched to the rig on 9th April 1978. It was received at the rig on 10th April, 1978 when the Production Department noticed that the 4 rolls of  $\frac{1}{4}$ " S.S. Control lines were not in the consignment received by it.

The drillship—Shanandoah—which was drilling the wells at platform 'B' was to lower the down-hole equipment into the wells. As the S.S. Control lines were not supplied alongwith the other equipment, the drillship had to wait for the same from 10th April, 1978 onwards. On the same day, the Project issued a telex message to the suppliers' offices at Dubai and Singapore to airlift the material if available ex-stock. As the material was not available with them, M/s. Camco, Singapore was asked to purchase atleast 1 number of  $\frac{1}{4}$ " S.S. Control line and airfreight the same. Accordingly, the material was purchased at a cost of US \$ 1476.25 (against the contracted price of US \$ 315) and airfreighted to Bombay on 12th April, 1978. The material reached Bombay on 13th April, 1978. In the meantime, the Project sent another telex to the suppliers at Houston on 10th April, 1978 to airfreight 3 numbers of S.S. Control lines against the earlier supply order. The suppliers airfreighted the remaining



3 numbers of the above item on 12th April, 1978 and they were received at Bombay on 17th April 1978 and issued to the drillship on the same day.

The drillship—Shanandoah—had thus, to wait for want of the equipment from 10th to 13th April 1978 and from 15th to 17th April, 1978 for a total period of 93½ hours resulting in avoidable payment of Rs. 6,45,416.33 as waiting charges for the drillship.

The Management/Ministry stated (June/October 1980) that the omission to include the item in the list of materials to be airfreighted was inadvertent and a human error and that this lapse resulted from sheer oversight and not out of any procedural lacuna.

### 3. Scrapping of imported pipes

A supply order dated 30th April 1974 was placed by the Commission on a Canadian firm for the supply of three sizes of Seamless Hot Rolled Steel Casing Pipes (outside coated with rust preventive) at a total f.a.s. (free alongside ship) price of Canadian dollars 13,27,092 equivalent to Rs. 110.52 lakhs (including the Indian agent's commission of Canadian dollars 19,906). The supply order, *inter alia*, contained the following terms :

- Claims in respect of damages/shortages, if any, shall be preferred on the supplier within thirty days (30) from the date of receipt of goods by the port consignee;
- The supplier shall furnish alongwith invoices, certificates of inspection and test and also a certificate

- to the effect that the goods in question are of recent manufacture and are in no case older than one year;
- The purchaser shall, on receipt of the material at ultimate destination, examine the same and if any item or items is/are not in accordance with the specifications/certificates of inspection test of the manufacturer, the purchaser shall give intimation to this effect to the supplier at the earliest, who shall replace the same free of charge.

Against the supply order mentioned above, 1367 pieces of 9.5/8" casing pipes were shipped by the supplier to Calcutta Port in January 1975. According to the bill of lading 729 pieces were loaded "on deck". The casing pipes arrived at Calcutta Port in April 1975 and reached Sibsagar by rail during the period from May 1975 to September 1975. A claim for Rs. 3.85 lakhs lodged with the Railways in September 1975 for 41 pipes received short at Sibsagar is still awaiting settlement (January 1982). The remaining pipes were not examined immediately on receipt at Sibsagar but on actual use it was found that the casing pipes supplied were very old and had been retrieved from the wells and that 60 to 65 per cent were badly corroded on the body from inside and outside. The matter was reported to the Indian agents of the suppliers in December 1975. Preliminary claims were also lodged with the suppliers as well as the forwarding agents on 23rd March 1976. The Indian agents reported in February 1976 that their principals were of the view that the pipes might have got corroded by salt water as part of the quantity was booked "on deck" and that their liability ended at the port of export because delivery by them was on f.a.s. basis. The forwarding agents also denied their liability (2nd April 1976) on the grounds that the norms for ocean carriage of these pipes included shipment on deck and that earlier consignments on deck were not objected to by the Commission.

In the meantime, a three member Board constituted to inspect, segregate and record the nature of defects and the S/3 C&AG/82—7.



probable causes for such defects, reported (April 1976), *inter alia*, as follows :

- There was a possibility of mixing old and new casing pipes inadvertently or intentionally by the suppliers before export.
- There were good reasons to doubt that 729 pieces which were stowed "on deck" were exposed to high salinity of sea atmosphere or sea water during the voyage giving rise to high corrosion and deep pitting.
- 584 pipes were badly corroded and unfit for use.

Although the Indian agents of the suppliers had informed (February 1976) that all the pipes in the shipment had been manufactured in December 1974, the Board could not obtain the pipe tally sheets, certificate of inspection and test, certificate of warranty and certificate showing the period of manufacture so as to verify the actual period of manufacture of the pipes. From the tally sheets filed with the Calcutta Port, however, the Board found that the pipes in question had actually been manufactured in December 1973. This showed that the period of manufacture of pipes was not verified on receipt of invoices although the supply order specifically provided that the pipes should not be older than one year.

On the suggestion of the Ministry of Shipping and Transport (April 1976), the Commission lodged (October 1976) a claim for Rs. 37.04 lakhs with the underwriters and the carriers simultaneously to compensate the Commission for the loss. The carriers rejected (October 1976) the Commission's claim as time-barred in accordance with the provisions of Indian Carriers Act, 1925. In January 1977, a revised claim for Rs. 52.68 lakhs was lodged with the underwriters. In a meeting held in November 1977 with the representatives of the underwriters for the settlement of the above claim, the underwriters informed the Commission that, in the event of acceptance of the above claim

by the underwriters, the Commission's claim would be reduced by the Customs duty element. In view of the above discussions, the Commission lodged a claim for refund of Customs Duty amounting to Rs. 15.66 lakhs (being proportionate duty paid for 584 rejected pipes referred to above). The Customs Authorities also rejected (December 1977) the Commission's claim as time-barred under the Customs Act, 1962 and an appeal to the Appellate Collector of Customs was also rejected (July 1978) on the grounds that the timely submission of claims was statutory and that mandatory provisions were not relaxable.

The underwriters also repudiated (November 1978) the claim of the Commission mainly, among others, on the grounds that (i) the extent of damage was not ascertained immediately after discharge from the overseas vessel or on arrival at destination (ii) the sellers were not notified about the quality and condition of the goods within one month as stipulated in the sale contract and (iii) as per opinion of the surveyors and technical experts, the pipes were not manufactured during one year preceding the date of despatch.

Ultimately, the Commission declared 584 pipes as unserviceable and a sum of Rs. 52.81 lakhs was written off in the accounts for the year 1976-77. However, in January/February 1978, 366 pipes of 9.5/8" casing pipes valued at Rs. 25.74 lakhs were declared usable at a lower pressure. The balance of 218 pipes were declared scrap and were valued at Rs. 1.53 lakhs.

Thus, the failure of the Commission in examining the supplies immediately after uploading of the goods at the port or on arrival at destination and failure to verify the period of manufacture from the documents that should have accompanied the invoices, resulted in delay in detecting the damages/deterioration of the casing pipes and in consequent delay in lodging the claims with the suppliers/underwriters/Customs Authorities, as a result of which the Commission was put to a loss of Rs. 25.54 lakhs (excluding the cost of pipes declared as usable at lower pressure) plus the expenditure incurred on S/3 C&AG/82—8.



inland freight and handling of the said 584 defective pipes (amount not ascertainable). The above amount of loss does not include the cost of 41 pipes lost in transit in respect of which a claim of Rs. 3.85 lakhs is pending with the Railways.

In a note of the Commission forwarded by the Ministry of Petroleum, Chemicals and Fertilisers in October 1980, the Commission stated that the claim on the suppliers was being pursued through the Canadian High Commission in India and the matter was also under correspondence with the underwriters.

## (XX) PYRITES, PHOSPHATES & CHEMICALS LIMITED

### *Purchase of an unsuitable bag filling and weighing machine*

In pursuance of a decision taken in May 1977 to install jaw crushers and roller crushers to crush the pyrites ore of Amjhore Mining Project to 5 mm size and bag the same by an automatic bagging and weighing machine, tenders were invited in October 1977 for an automatic bag filling and weighing machine. Negotiations were held with firm 'A', the lowest tenderer, and order for a machine costing Rs. 0.72 lakh (Ex-works) was placed in January 1978. The technical specifications enclosed with the firms quotation specifically provided that the accuracy of  $\pm 0.5$  per cent indicated was subject to the condition that the produce did not contain any lumps or foreign substance.

The machine was received in April 1978, but could be installed only in December 1978 at a total cost of Rs. 0.91 lakh as the crushing season was over by the time the erection drawings and other details were received from the firm. During trial runs in January 1979 the performance of the machine was not found to be satisfactory as the bags weighed by the machine showed wide variations from 1—5 kgs. on actual re-weighment by manual beam scale. The firm which was requested by the Company in February 1979 to rectify the defects stated in July/August 1979 that the variation in the weighment was on account of the presence of lumps in the crushed material which were not indicated in the raw material characteristics given to them at the time of enquiry and, accordingly, expressed their inability to replace the machine at their cost. The firm, instead, offered a different model which was not accepted by the Company. The proposal of the firm (April 1981) for modification of the



machine at a cost of Rs. 15,000 (excluding taxes) was also not agreed to by the Company as it was considered that even after modification the desired results may not be achieved. Meanwhile, the machine was dismantled and is lying in the stores.

Thus, the purchase of an unsuitable machine, not only rendered the investment of Rs. 0.91 lakh unproductive, but also resulted in loss of interest of about Rs. 0.38 lakh (from December 1978 to December 1981) on the amount which has been blocked.

The Ministry stated (November 1981) as under :—

- (i) "The handling of agricultural grade Pyrites by the P.P.C.L. for use as soil amendment material was a new venture and similar experience elsewhere was not available. The management did not anticipate that the crushed and screened material would contain lumpy material also due to which the machine could not give the desired performance. This could not be envisaged earlier.
- (ii) The suppliers have agreed in October 1981 to assist the Management in disposing of the machine———  
———. The management hopes to recover almost the same price of machine as by now its price has also gone up."

The above contention of the Ministry is not tenable in view of the fact that procurement of an automatic machine without knowing the actual characteristics of the material from the crushing plant commissioned in January 1978 lacked justification.

## (XXI) STATE FARMS CORPORATION OF INDIA LIMITED

### *Closure of the Aswaraopet (Khammam) Farm (A.P.)*

The Committee on Public Undertakings, in paragraphs 7.1 to 7.6, 7.16 and 7.18 of their 54th Report (1973-74) on the working of the State Farms Corporation of India Limited, had observed that the Khammam farm was established by the Corporation in 1972 although the Planning Commission had not agreed to its establishment, had desired that it should be deferred for consideration in the Fifth Plan and that the Corporation should consolidate the existing farms.

The Project Report prepared in January 1973 by a team of experts of the Corporation, gave the following reasons for selection of two blocks of land offered by the Government of Andhra Pradesh for setting up the farm at Khammam :—

- (i) Existence of sufficient and suitable underground water for irrigation purpose.
- (ii) Despite poor fertility of the soils, these could be well developed both for rain-fed and irrigated crops.
- (iii) Abundance of sunlight, ideal temperature for growing a variety of crops, a good market for the products of the land together with a rainfall pattern supplemented by suitable irrigation potential, made the site one of the best places for growing various crops.
- (iv) The farm would be economically viable and commercially successful with an expected return of 5.22 per cent on investment in the third year increasing to 14.83 per cent in the fifth year.



Against 6000 acres of land offered on lease, the State Government actually handed over to the Corporation a total of 3720 acres only upto 30th June 1975. The farming operations were commenced in November 1972 and the operating loss in the first year 1972-73 amounted to Rs. 0.42 lakh. The yields at the farm, however, remained very low even in the fourth year of operations as will be seen from the following statistics :—

Season	1973-74	1974-75	1975-76	1976-77
<i>(i) Kharif</i>				
<i>(a) Area sown</i>				
<i>(in acres)</i>				
Target . . . . .	800	1600	1604	2200
Achievement . . . . .	695	588	998	1363
<i>(b) Yield . . . . .</i>				
<i>(in quintals)</i>				
Target . . . . .	3200	3665	4286	4090
Achievement . . . . .	1097	610	1449	1470
<i>(ii) Rabi</i>				
<i>(a) Area sown</i>				
<i>(in acres)</i>				
Target . . . . .	780	600	440	1310
Achievement . . . . .	295	209	339	94
<i>(b) Yield . . . . .</i>				
<i>(in quintals)</i>				
Target . . . . .	2560	1525	1280	4115
Achievement . . . . .	157	161	287	31
<i>(iii) Operating Loss</i>				
<i>(Rs. in lakhs)</i>				
	3.73	5.53	15.38	14.53

The General Manager of the Corporation who visited the farm, in a tour note dated 8th November 1976 made, *inter alia*, the following observations on the working of the farm :

- (i) The performance of the farm under cropping was extremely poor not only in respect of the total area planted but also in the levels of production resulting mainly from the failure of the administration in (a) preparing the land cleared last year for sowing during the Kharif, (b) selection of the area for nursery which was washed away by heavy rains and (c) sowing of crops on time;

- (ii) The whole question of land development needed thorough examination because the land reclaimed included areas still needing either stump pulling or levelling or areas on the slopes of hillocks which should not have been reclaimed because these were subject to severe water erosion;
- (iii) The utilisation of irrigation water was not very efficient;
- (iv) The high cost of mechanical operations was indicative of the low levels of efficiency of the Mechanical Section; and
- (v) Excessive expenditure on wages resulting from employment of labour far in excess of the norms.

The Chief (Agriculture) of the Corporation in a note dated 10th November 1976 observed that the shortfall in production was mainly due to inefficiency of the management although the potentiality of the farm was quite encouraging, keeping in view the type of soil, availability of water, climate and communications in addition to the co-operation of the State Government.

In December 1976, the Board of Directors decided to close the farm from 1st March 1977 on the following grounds :—

The performance of the farm had been extremely poor resulting in persistent losses with increasing trend in each successive year.

Due to poor soil, extremely inadequate irrigation facilities and poor management the yields had been incredibly low as a result of which even direct cost could not be recovered.

Apart from poor soil consisting mostly of sand and coarse sand (morrum or badarpur) there was no possibility of irrigation development with the result that only a small fraction of land could be cultivated



for Rabi crops as compared to that cultivated for the rain-fed crops.

Rainfall was quite precarious and uncertain and out of 6 tubewells constructed for irrigation, 3 failed completely and the cost of lifting water was very high.

There was no prospect of the farm ever becoming viable and a major portion of the total investment of Rs. 45.5 lakhs (written down value of Rs. 30.71 lakhs) would be a dead loss.

In pursuance of the decision of the Board of Directors, the return of land to the State Government was taken up with the Ministry of Agriculture and Irrigation, who requested (May 1977) the State Government to take over the land on payment of compensation to the Corporation for the permanent assets installed by it. The State Government took possession of the land in July 1977 and paid an amount of Rs. 5.99 lakhs as compensation for assets of the written down value of Rs. 7.32 lakhs excluding Rs. 0.07 lakh representing security deposit for service connection ; the balance of Rs. 23.39 lakhs was the written down value of land development expenditure which the State Government did not consider an asset.

The Operating losses incurred by the Corporation from inception of the farm to its closure amounted to Rs. 39.59 lakhs and the claim for Rs. 24.79 lakhs comprising Rs. 24.72 lakhs being the balance of the written down value of assets and Rs. 0.07 lakh paid by the Corporation as security deposit for service connection had not been acknowledged by the State Government so far (February 1982).

Notwithstanding the fact that the expectations on which the site for the farm was selected did not materialise fully, the poor performance of the farm resulting in losses and its ultimate closure was also, by and large, due to its poor management as admitted by the Management.

(XXII) THE STATE TRADING CORPORATION OF INDIA  
LIMITED

1. *Import of Sack Kraft Paper*

As the Ministry of Industry and Civil Supplies were keen to step up the export of cement to 1 million tonnes and more in 1976-77, the Company were asked by the Ministry in July 1976 to confirm whether it would be possible for the Company to undertake export of more quantities of cement than 1 million tonnes during 1976-77. Later, it was decided to maintain the same level of export during the next year.

In October 1976, the Company applied for an import licence for Rs. 3 crores for importing 7,000 tonnes of sack kraft paper for manufacturing bags for export of 5 lakh tonnes of cement. While granting the import licence in January 1977, Government imposed a condition that the Company should earn foreign exchange of Rs. 20 crores by exporting cement within a period of 6 months. Against the main import licence for Rs. 3 crores, the Company obtained split licences in the names of three paper bag manufactures (*vide* details given below), who were to supply bags to the producers/exporters of cement :

Firm	Date of licence	Quantity Tonnes	Value (Rupees)
M/s. W	28-2-1977	3,500	1,48,43,000
M/s. O	13-4-1977	1,600	60,76,800
M/s. N	7-5-1977	250	9,27,000

In April 1977, considering the shortage of cement in the country, it was decided in an inter-ministerial meeting held on 28th April 1977 that no fresh contracts for export during 1977-78



should be entered into; while the Company should continue despatches against contracts already concluded, efforts should be made to stagger despatches wherever possible without affecting its credibility with the foreign buyers. On 2nd May 1977, the Company advised the bag manufacturers M/s. W & O to stagger further imports with a view to avoiding problems arising by way of additional inventory cost, storage charges and deterioration in the quality of paper. They were also asked to give details of stocks held, stocks on high seas and stocks already ordered along with revised shipping schedules. M/s. O alone responded to this advice and no further directions were given to them. M/s. W did not respond nor were they pressed for the information. The third firm M/s. N were issued a subsidiary licence for import of 250 tonnes of paper (c.i.f. value Rs. 9.27 lakhs) on 12th May 1977. No reasons were found recorded in the files of the Company for arranging this import licence when the Company was fully aware of the difficulties in obtaining cement for export. On 1st August 1977, M/s. W were advised to defer shipment of further quantities beyond December 1977; by 26th July 1977 they had imported 1965 tonnes and committed to import further 193 tonnes against their import licence for 3500 tonnes. In response, M/s. W informed the Company that till then they had not received any advice on deferring shipments and that it was too late to defer shipments beyond December 1977 as their overseas suppliers had intimated them that they had already manufactured the balance quantity and were holding the stock at their risk and cost.

By the end of August 1977, 3930 tonnes of paper had arrived in India as indicated below :

	Tonnes
31st March 1977	861
25th April 1977	493
30th April 1977	549
31st May 1977	807
6th June 1977	527
20th August 1977	693
TOTAL	3930

According to an assessment made by the Company in September 1977, after meeting export commitments in hand they would be left with 2467 tonnes of paper and 6.88 lakhs of manufactured bags. With a view to liquidating the stock, the Company requested Government in September 1977 to allow them to export 3.25 lakh tonnes of cement from surplus pockets in the country. Selling the paper locally was not considered feasible as the landed cost would be very high unless exemption from customs duty was given. Export of paper as such or of bags manufactured out of the paper was expected to result in a loss of about Rs. 35 lakhs. These proposals were considered in an inter-departmental meeting (7th November 1977) and it was felt that additional quantities would not be available for export and it might not be possible to grant exemption from customs duty. In May 1978, Government finally declined to grant duty exemption.

In the meantime, M/s. W threatened legal action against the Company calling upon the latter to indemnify them for expenses incurred on the imported paper which they could not convert into bags and sell to the cement manufacturers. The matter was referred to the Solicitor General of India who advised the Company in March 1978 that the bag manufacturers were acting only as agents of the Company and that the Company was liable for any loss that the manufacturers might suffer. In view of this advice, the Company decided in April 1978 to pay the manufacturers for the imported paper and export the paper not converted into bags. After obtaining the permission of Government the entire stock was sold in June 1978 to a Korean firm with whom the Company had entered into a contract for the import of cement. The Company informed Audit (March 1979) that no other firm was contacted for disposal of the paper as none showed any interest in purchasing the same.

The re-export of the paper resulted in a loss of Rs. 65.65 lakhs (approx.). Of this, loss of Rs. 6.14 lakhs (approx.) was on import of 250 tonnes of kraft paper for which import licence was issued to M/s. N on 12th May 1977. The loss could have been avoided



if before entering into a commitment with the bag manufacturers for import of paper, it had been ensured that the requisite quantity of cement would be available for export. The Company had not investigated why an import licence was arranged for the third party in May 1977 when they were aware that additional quantities would not be available for export.

## *2. Loss in settlement with a supplier*

To meet the requirements of the fatty acid manufacturers, small scale units and registered exporters, the Corporation sent on 7th November 1975, telex messages to its overseas branches in Tokyo, Singapore, Newyork, Sydney and London to contact and request the leading suppliers of technical palm oil and tallow to forward their offers before 12th November 1975 (quantity not specified) for shipment during November 1975 to February 1976.

In response to these enquiries, only one offer was received for technical grade palm oil ; this was from the Indian representative of a Geneva firm. Two offers were received for mutton tallow and the lowest rate quoted by a US firm was US \$ 410 per MT c. & f. Bombay. The rate quoted for technical palm oil was US \$ 322 to 330 c. & f. Indian Port depending on the port/ports of destination. After negotiations, the Geneva firm reduced the rate for technical palm oil to US \$ 309 to 317 per MT and a revised offer to that effect was received from the Indian representative on 13th November 1975. As the prices for mutton tallow were higher, the Corporation decided to purchase 3,500 MTs of technical palm oil at the reduced rates and informed the Indian representative on 13th November 1975 that this purchase was being made on the understanding that an amount of US \$ 87,731 overdrawn by their principals towards Free Fatty Acid (FFA) premium on an earlier order of August 1975 would be adjusted either from the impending shipment against an order of September 1975 or from the contract price of the proposed order. On 16th December 1975 the Indian representative communicated the acceptance of the Geneva firm of adjustment of the overdrawn

amount from the contract price of the proposed order for 3,500 MTs. Contrary to the understanding, the Corporation did not establish the Letter of Credit in this case so as to pressurise the Geneva firm to establish a Letter of Credit in respect of a contract for the import of sugar from India which was being handled by the Corporation then. Meanwhile, the Geneva firm shipped 3346 MTs of technical palm oil against this order and the vessel which sailed from Nigeria on 15th December 1975 was expected to arrive at Bombay port on 5/7th of January 1976. On 27th December 1975 the Indian representative handed over the telex of their principals requesting the Corporation to establish the Letter of Credit within the next 3 days failing which the Corporation would be debited with detention fees, other expenses as well as losses arising out of the Corporation's default. On 31st December 1975, when the Corporation ultimately decided to establish the Letter of Credit (the State Bank of India was actually advised on 31st December 1975 to establish the Letter of Credit and was requested on 2nd January 1976 to cancel it if it was already established), a message was received from the Supplier that as the Letter of Credit was not received by them the shipment had been diverted to Europe and that the Corporation would be debited with consequent extra expenditure and losses. The oil was finally sold to a third party in Europe. On 23rd January 1976, to meet the domestic requirements, the Corporation purchased 3500 MTs of Australian tallow, in place of technical palm oil, at an extra cost of US \$ 2,17,000 (at US \$ 371 per MT as against US \$ 309 per MT of technical palm oil).

The Geneva firm referred the loss of US \$ 1,22,661 suffered by it in the diversion of the shipment and the sale of oil to a third party for arbitration while the Corporation filed a counter claim before the arbitrators for US \$ 2,17,000 representing the extra expenditure incurred in the purchase of Australian tallow in place of technical palm oil. Simultaneously, the Corporation also initiated separate arbitration proceedings for the total overdrawn amount of US \$ 1,23,649 by the Geneva firm against the August 1975 order (US \$ 87,731 towards FFA premium, US \$ 4,064



towards moisture/impurities premium, US \$ 3,320 towards overage insurance and additional customs duty of US \$ 28,534 paid on the above items). As the arbitrators in the case filed by the Geneva firm could not agree between themselves, they appointed an Umpire. In April 1978 the Umpire awarded damages of US \$ 59,205.14 in favour of the Geneva firm for the loss suffered in the diversion of the shipment and sale of the oil to a third party, alongwith interest of US \$ 10,036.48 at 7½% per annum from 1st January 1976 to the date of award. The Corporation's claim for US \$ 2,17,000 was rejected by the Umpire on the ground that it had committed breach of contract in not opening the Letter of Credit within a reasonable time. In this case the Corporation spent £ 7791.36 towards solicitor's fees and £ .720 towards arbitration charges.

In May 1978 the Geneva firm suggested an amicable settlement of all the disputes on 'drop hand basis' i.e. the Corporation should withdraw its claim in respect of earlier contracts and they in turn would waive their right under the arbitration award of April 1978. After further negotiations the Corporation agreed to accept US \$ 50,000 in full and final settlement of all the pending claims on both sides and also subject to the condition that the Geneva firm would bear the arbitration charges of £ 720. The Board accepted the above settlement in September 1979 and the amount of US \$ 50,000 was also received from the Geneva firm. Even then the Corporation was put to a net loss of Rs. 23.93 lakhs as indicated below :

	Amount (Rupees)
Extra expenditure on the purchase of 3500 MTs of tallow (US \$ 2,17,000)	17,55,663
Solicitor's charges for arbitration (£ 7791.36)	1,18,446
Over drawn amount by the Geneva firm against August 1975 order after excluding customs duty of US \$ 9511 excess claimed (US \$ 1,14,138)..	9,23,446
<b>TOTAL</b>	<b>27,97,555</b>
Less amount received under the settlement (US \$ 50,000)	4,04,531
<b>Net Loss</b>	<b>23,93,024</b>
	or Rs. 23.93 lakhs

In this connection the following observations are made :

- (i) In the agenda note submitted to the Board meeting held in September 1979 for accepting the proposed settlement, it was stated that as against US \$ 1,14,138 due from the Geneva firm against the earlier contract the Corporation would be getting US \$ 1,21,461.70 (US \$ 50,000 offered in full and final settlement and US \$ 71,461.70 payable as per the arbitration award, including interest upto 31st July 1978 to the firm but forgone) in terms of the settlement. But the Board was not informed about the extra expenditure of US \$ 2,17,000 incurred in the purchase of Australian tallow (in substitution of the technical palm oil due to diversion of the shipment) the claim for which was rejected in arbitration.
- (ii) The loss in this case could have been avoided had the Corporation opened the Letter of Credit in time without linking it with the opening of the Letter of Credit by the Geneva firm against an entirely unrelated contract for the export of sugar. According to the legal opinion obtained on 27th December 1975, the Corporation was advised that it would not be open for it "to defer opening a Letter of Credit in relation to the palm oil contract and thereby commit default merely because the 'Geneva firm' had committed a similar default in regard to a separate contract i.e. the sugar contract. The obvious question that would arise would be the extent of the exposure of STC to any claim for damages 'from the Geneva firm' for any default on the part of the STC in opening a Letter of Credit on the palm oil contract and how much it would gain by way of set off for..... secure ultimately by way of damages/compensation for 'the Geneva firm's' default on the sugar contract.



Apart from this the other considerations, which must determine" the "final decision are the rise in the market value of palm oil over the price applicable to" the "contract and the opportunity available to receive some US \$ 87,731 overdrawn by" the Geneva firm "on another transaction".

In spite of this legal opinion the Corporation did not open the letter of Credit in time. The delay resulted in a loss of Rs. 23.93 lakhs.

## (XXIII) WESTERN COALFIELDS LIMITED

### *Idle weighbridges*

The erstwhile Coal Mines Authority Limited (now Coal India Limited) had placed three bulk orders from August 1974 to November 1975 on two firms for supply of 33 railway wagon weighbridges of 100 tonnes capacity each to some of its divisions (now subsidiaries) at a total cost of Rs. 107.96 lakhs plus sales tax. Out of these weighbridges, the Western Coalfields Limited (one of the subsidiaries) was allotted 19 weighbridges of the value of Rs. 58.86 lakhs plus sales tax for installation along with extended railway sidings at 18 collieries and at Ghugus railway station. These were received at the respective sites between June 1975 and December 1976.

Proposals for modifications of the sidings including installation of weighbridges were sent during January and February 1974 to the Central Railways, who intimated in July 1975 the terms and conditions relating to maintenance charges etc. for working of the sidings. As these involved heavy additional recurring expenditure, the question of modification of terms and conditions was taken up with the Railways in 1976 and was settled on 23rd November 1977.

Out of 19 weighbridges, five were commissioned in March 1977, June 1978, June 1979, October 1979 and April 1980 at Hiradgarh, West Jhagrakhand, Jamuna open cast, Govinda and Bijuri Collieries respectively and two installed at Chanda Rajatwari and West Chirimiri in February 1982 have not been commissioned so far (February 1982). The remaining 12 weighbridges could not be installed so far (February 1982) on account of :—

- (a) dropping of proposal for installation at the colliery sites, due to short life of mines, low production, unfavourable alignment of locations, want of legal



clarifications about the ownership of colliery etc., in respect of 6 weighbridges which are now proposed to be installed after construction/modification of sidings—2 at the same sites and 4 at changed locations;

- (b) delay in completion of railway sidings in respect of 2 weighbridges, installation of which is in progress;
- (c) installations awaiting modifications of sidings in respect of 2 weighbridges; and
- (d) repeated changes in locations in respect of 2 weighbridges.

Further, change of location of two weighbridges and decision to install six weighbridges, proposal in respect of which was dropped earlier, would require further clearance from the Railways, in regard to the opening of new sidings or their modifications, extension and alteration if sidings exist, which is a time consuming process and would further delay the installation of these weighbridges.

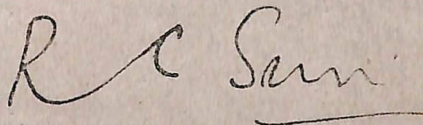
The delay in installation and commissioning of 5 weighbridges costing Rs. 15.76 lakhs plus sales tax and non-installation/non-commissioning of 14 weighbridges costing Rs. 43.10 plus sales tax for over 5 years since their purchase had resulted in blocking of funds and consequent loss of interest.

The Ministry of Energy stated (September 1980) as follows :—

“Considering that it normally takes 1-2 years for installation of weighbridge, there does not appear to have occurred any delay in installation of these weighbridges. Whatever little delay that occurred was beyond the control of the Company as this was due to change in planning and Railways attitude.”

In this connection, the following facts are noteworthy :—

- the installation period of an identical type of weigh-bridge stipulated by the Director General, Supplies and Disposals is 8 weeks only.
- 14 weighbridges received at respective sites between June 1975 and December 1976 are still (February 1982) lying idle.
- the delay due to “change in planning and Railways attitude” reflects improper planning and non-settlement of issues regarding apportionment of cost and technical feasibility of installation of weighbridges with Railways while planning the purchase of such costly machines.

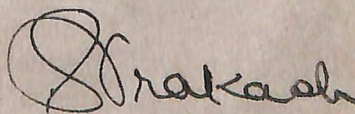


(R. C. SURI)

*Chairman, Audit Board and Ex-officio  
Additional Deputy Comptroller and  
Auditor General (Commercial)*

New Delhi  
The 26 July, 1982

Countersigned



(GIAN PRAKASH)

*Comptroller and Auditor General of India*

New Delhi  
The , 26 July, 1982



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Author

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