PREFACE

1. The accounts of Government Companies set up under the provisions of the Companies Act (including Companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (C&AG) under the provisions of Section 619 of the Companies Act, 1956. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the C&AG under the Companies Act are subject to supplementary audit by officers of the C&AG and the C&AG gives his comments or supplements the report of the Statutory Auditors. In addition, these companies are also subject to test audit by the C&AG.

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

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

4. The Audit Board mechanism was restructured during 2005-06 under the supervision and control of the C&AG. The Board, which is permanent in nature, is chaired by the Deputy Comptroller and Auditor General (Commercial) and consists of senior officers of the C&AG. Two technical experts are inducted as special invitees, if necessary. The Principal Director (Commercial) of the C&AG's Office is the Member Secretary to the Board. The Board approves the topics recommended for performance audit. It also approves the guidelines, audit objectives, criteria and methodology for conducting major performance audits. The Board finalises the stand alone performance audit reports after discussions with the representatives of the Ministry and Management.

5. Annual reports on the accounts of the Central Government Companies and Corporations are issued by the C&AG to the Government. For the year 2009-10, these are:

Compliance Audit Reports

Report No. 2 - Financial Reporting by Public Sector Undertakings (PSUs): This gives an overall picture of the quality of financial reporting by PSUs and an appraisal of the performance of the Companies and Corporations as revealed by their accounts.

Report No. 9 - Compliance Audit Observations: This contains observations on individual topics of interest noticed in the course of audit of the Companies and Corporations.

Performance Audit Reports

Report No. 10: This contains performance audit of selected activities and use of information technology in selected areas of operations of the Companies and Corporations.

6. The cases mentioned in this Report are among those which came to notice in the course of audit during 2008-09 as well as those which came to notice in earlier years but could not be reported. Similarly, results of audit of transactions subsequent to March 2009 in a few cases have also been mentioned, wherever available and relevant.

7. All references to ‘Government Companies/ Corporations or PSUs’ in this report may be construed to refer to ‘Central Government Companies/ Corporations’ unless the context suggests otherwise.

EXECUTIVE SUMMARY

I Introduction

1. This Report includes important Audit findings noticed as a result of test check of accounts and records of Central Government Companies and Corporations conducted by the officers of the C&AG of India under Section 619(3) (b) of the Companies Act, 1956 or the statutes governing the particular Corporations.

2. The Report contains 80 paragraphs relating to 52 PSUs* under 20 Ministries/ Departments. The draft paragraphs were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working, to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 48 paragraphs were not received even as this report was being finalised in November 2009. Earlier, the draft paragraphs were sent to the Management of the PSUs concerned - in respect of one paragraph♣, the Management did not respond.

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

Ministry/Department (Total number of PSUs/ PSUs involved here)	**Number of para-graphs**	**Financial implication in the paragraphs (Rs. in crore)**	**Number of paragraphs in respect of which Ministry reply was awaited**
1. Biotechnology (2/**1**)	1	7.80	-
2. Civil Aviation (10/**3**)	8	43.91	5
3. Coal (12/**7**)	8	467.84	4
4. Commerce and Industry (11/**3**)	3	1171.82	2
5. Communications and Information Technology (7/**2**)	8	92.25	8
6. Consumer Affairs, Food and Public Distribution (3/**1**)	6	1275.25	4
7. Defence (10/**3**)	5	57.50	2
8. Fertilizers (10/**1**)	2	6.14	-
9. Finance (15/**4**)	6	34.51	2

* ***This includes five PSUs whose paras have been shown under the Department of Public Enterprises as consolidated paras.***

♣ ***GAIL (India) Limited in respect of para no. 13.6.1***

10. Heavy Industries (54/**2**)	2	9.41	1
11. Housing and Urban Poverty Alleviation (2/**1**)	1	0.00	1
12. Mines (4/**1**)	1	44.18	1
13. Petroleum and Natural Gas (21/**7**)	12	2122.49	8
14. Power (35/**3**)	3	29.90	2
15. Public Enterprises (**[1]/[2]**)	2	47.11	-
16. Railways (14/**2**)	3	43.96	1
17. Road Transport and Highways (2/**1**)	2	7.45	2
18. Shipping (9/**1**)	1	17.82	1
19. Steel (15/**3**)	5	137.39	3
20. Textiles (18/**1**)	1	2.26	1
Total (254/**52**)	**80**	**5618.99**	**48**

4. The audit observations included in this Report are broadly of the following nature:

- ❖ Non- compliance with rules, directives, procedures, terms and conditions of the contract etc. involving Rs.1847.71 crore in twenty eight paras.
- ❖ Non-safeguarding of financial interests of organisation involving Rs.1756.85 crore in thirty paras.
- ❖ Defective/deficient planning involving Rs.177.81 crore in nine paras.
- ❖ Lack of fairness, transparency and competitiveness in operations involving Rs.1634.71 crore in four paras.
- ❖ Inadequate/deficient monitoring involving Rs.147 crore in six paras.
- ❖ Non-realisation/partial realisation of objectives involving Rs.7.80 crore in one para.
- ❖ Rs.47.11 crore were recovered at the instance of Audit in one para.
- ❖ Corrections/rectifications at the instance of Audit in one para.

[1] ***All the PSUs are under the Department of Public Enterprises.***
[2] ***Five PSUs covered in the para are not appearing in the respective Ministry/Department.***

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

1. STCL Limited**,** a company dealing in spices, entered a new business of trading in iron ore and metal scrap in 2004-05. The company undertook third country export of metal scrap with the help of Business Associates (Future Metal Private Limited and Future Exim (India) Private Limited). In this export, both the buyers and sellers were located overseas. Under the arrangement, the Company was to issue Letters of Credit (LCs) in favour of overseas sellers and release shipping documents to buyers on receiving remittances from them.

The Company failed to safeguard its financial interests as it did not insist on back- to-back LC from buyers. The Company did not appoint its own agency for pre-shipment inspection. The sellers exploited these weak linkages and dispatched inferior material (including sand and tyres) instead of proper metal scrap. The sellers received their payments as the Company had issued LCs in their favour. As the buyers did not pay in full, the Company ultimately suffered a loss of Rs.1167.48 crore, mainly during 2008-09.

(Para no. 4.3.1)

2. Oil and Natural Gas Corporation Limited had been valuing the condensate produced from its own Bassein gas field at gas price. The Company was also jointly operating the Tapti gas field as a joint venture with Reliance Industries Limited and British Gas Exploration and Production India Limited as per the Production Sharing Contract (PSC) executed in December 1994. The condensate produced from the JV gas field was retained by the Company in return of gas. Ministry of Petroleum and Natural Gas (MOPNG) had directed in May 1998 that condensate is to be treated as gas. A study conducted by Engineers India Limited in February 2005 at the instance of MOPNG also concluded (March 2005) that condensate obtained from Tapti field could be treated as gas. In deviation of (i) the Company's own practice of valuing the condensate produced from gas field at gas price, (ii) directive of MOPNG and the study conducted by EIL, the Company treated the condensate produced from the Tapti gas field at crude oil price. This resulted in loss of Rs.853.09 crore (till March 2009) to the Company. Considering the average price paid for condensate (i.e. US$69.56 per barrel), loss to the Company over the remaining period of the contract is estimated at Rs.1091.58 crore.

(Para no. 13.5.1)

3. Oil and Natural Gas Corporation Limited had assigned the operation and maintenance of its owned offshore vessels (OSVs) to two private contractors. Due to failure of the Company to oversee compliance with the statutory requirements by the operation and maintenance contractors for the operations of offshore supply vessels (OSVs), 1 of the 31 owned OSVs capsized during operation in July 2007. Following this, the Director General of Shipping reviewed the remaining 30 OSVs and observed that the OSVs were being operated without valid statutory certificates and, therefore, withdrew (July 2007) the Document of Compliance of the contractors. Subsequently defects were revealed in the remaining OSVs. As a result, a number of OSVs remained under repairs and dry docking after July 2007. As of May 2009, only 19 of the 30 OSVs were in operation. Short supply of the OSVs resulted in idling of 27 chartered and owned rigs for a total of 1,161 days from July 2007 to May 2009 and consequent expenditure of Rs.576.29 crore on idling of rigs.

(Para no. 13.5.2)

4. Food Corporation of India (FCI) procures rice through levy and custom milling for the Central pool. During storage rice loses weight due to loss of moisture. The Government of India issued instructions (April 1980) that FCI should prescribe by 30 September 1980, the limits of storage loss on account of loss in weight and deterioration of stock. No norms for storage loss have been fixed by FCI till date and the storage loss was being accounted for on actual basis as the difference between the receipt weight and the issue weight. Storage loss account in Punjab region revealed that the average storage loss in rice during the period 2003-04 to 2007-08 was 1.02 *per cent* whereas in Haryana region where climatic condition was similar, the average storage loss in rice was observed at 0.33 *per cent* only. Thus, when compared to Haryana region, Punjab region incurred excess storage loss of 3.23 lakh MT valuing Rs.450.65 crore during the period 2003-04 to 2007-08.

(Para no. 6.1.2)

5. Indian Oil Corporation Limited (IOCL), a company dealing in petroleum products, planned the capacity expansion of its Barauni Refinery to six Million Metric Ton per Annum (MMTPA). This involved processing of one MMPTA high sulphur imported crude and five MMPTA low sulphur imported crude. Elimination of generation of Light Diesel Oil (LDO), a low value product, was also a part of project which was commissioned in December 2002.

The Company, however, could not achieve the above objectives as it diverted 3.7 lakh MT High Speed Diesel (HSD) components for generation of LDO instead of production of HSD, a high value product, during the period from 2003-04 to 2007-08. Further, the refinery also could not process the desired quantity of High Sulphur crude due to metallurgical constraints of major equipment restricting the actual processing of HS crude lower than the design by 8.12 lakh MT during the above period. Thus, the Company suffered loss of Rs.212.71 crore by diverting high value product components for generation of low value product (LDO) and also it could not process cheaper high sulphur crude due to the constraints in its processing unit resulting in additional expenditure of Rs.180.32 crore on account of costly Low Sulphur crude instead of cheaper High Sulphur crude.

(Para no. 13.4.1)

6. Section 292 (3) of the Indian Companies Act, 1956 stipulates that delegation of powers to any committee of the company to invest surplus funds should specify the total amount up to which the funds may be invested by such committee. Neyveli Lignite Corporation Limited while delegating powers to the Committee of General managers to recommend investment of surplus funds in commercial bank(s) up to one-year did not specify the total amount up to which the committee could invest. Tamil Nadu and Karnataka State Electricity Boards prematurely redeemed (March 2007) power bonds amounting to Rs.1480.87 crore and the Committee, without apprising the Board of Directors of this unexpected receipt, invested (March 2007) this money in short term deposit with four banks. On maturity these funds were re-invested in short term deposits in February 2008 and in February 2009 without carrying out any commercial appreciation of the opportunities available for long term investments. Thus, the Company lost an opportunity to earn additional revenue of Rs.89.17 crore on the funds received from the State Electricity Boards by investing the surplus funds in short term deposit.

(Para no. 3.6.2)

7. Coal produced at Chitra mines of Eastern Coalfields Limited was mainly sold to Thermal Power Stations of NTPC Limited. In order to ensure supply of coal in required sizes and quality, the stones/ shales and extraneous material contained in the coal were picked out before crushing the same below 200 mm size. These activities were outsourced during 2004-05 to 2007-08. The Company adopted derived method (based on volumetric measurement) to check en-route shortage. This method involved human error as it gave approximate figures. Despite the fact that the local Company staff regularly reported pilferage of coal en-route between dump yard and railway siding to the local police, cost of negligible shortage of 542.19 tonne, i.e., Rs.0.11 crore was recovered from contractors' bills. The Thermal Power Stations deducted Rs.65.17 crore for grade slippage of coal (supply of stones/ shales etc.). The contractors were not made responsible for the amount deducted by the customers for grade slippage as well for supply of oversized stone.

(Para no. 3.4.1)

8. The Coal Preparation Plant (CPP) in Piparwar Area of Central Coalfields Limited receives raw coal for washing mainly from lower and upper Dakra seam of Piparwar Area. The washed coal of the CPP is supplied to Power Houses. The price of the washed coal supplied to Power Houses other than NTPC is unilaterally fixed by the Company taking into account the various input cost components viz. raw coal price, power tariff, diesel rate, All India/ Wholesale Price Index and other related factors. The price so fixed is subject to mid term revision if there is any change in the cost components.

The coal of upper Dakra seam of Piparwar Area was declared as E grade in 2001-02 and the CPP started using both E grade and F grade coal from upper and lower Dakra seam respectively from 2002-03 onwards. However, while fixing the price of washed coal, the Company considered the raw coal price of cheaper F grade coal only, for the total quantity of coal fed to the CPP instead of considering the raw coal prices of both E and F grade in proportion to their quantity fed. It was seen that during 2004-05 to 2008-09, the ratio of E and F grade coal used in the CPP ranged between 27:73 and 49:51 and there was short realisation of revenue varying between Rs.40.50 to Rs.84.50 per tonne during the above period for washed coal supplied to Power Houses. This resulted in under realisation of revenue to the tune of Rs.67.83 crore for 11.02 million tonne of washed coal sold to Power Houses.

(Para no. 3.2.1)

9. Bharat Sanchar Nigam Limited as one of the largest telecom operators has clear rules for the disconnection of telecom facilities in case of non payment by the subscribers. In 15 Secondary Switching Areas under Bihar, Madhya Pradesh, Maharashtra and Rajasthan telecom circles of the Company, the telephone/circuit connections of subscribers and STD PCO operators were not disconnected in spite of non-payment of bills even after the due dates. This resulted in accumulation and non-recovery of revenue of Rs.16.09 crore out of which only Rs.0.86 crore could be realised/adjusted by the Company.

(*Para no. 5.1.2)*

10. Bharat Gold Mines Limited was referred to BIFR in 1992 as its net worth was fully eroded. The Company was closed in March 2001. The closure was upheld (September 2003) by the High Court of Karnataka with the recommendation to consider transfer/conveyance of the quarters/houses allotted to the employees at concessional rate.

The Company's inept handling of its estate after the closure of its production activities resulted in (i) unauthorised encroachment of 502.48 acres of land (valued at Rs.26.27 crore), (ii) of the 4410 quarters allotted to ex-employees, 4331 allottees were irregular in payment of rent resulting in an overdue amount of Rs.4.93 crore from defaulters, and (iii) the transfer of the quarters/houses on the basis of plinth area excluding courtyard/vacant land of the building instead of sital area resulted in loss of Rs.11.26 crore in respect of 2829 houses handed over to ex-employees.

(Para no. 12.1.1)

11. Container Corporation of India Limited, a company dealing in transportation of containers and logistics business, entered a new business of purchase, storage and trading of the apples in 2006-07. Before entering into the new business the Company had identified some risk factors associated with the fruit trading business like lack of expertise, exposure of the business to demand risk, price risk, cost risk and crop failure risk. However, the Company did not mitigate these perceived risks before entering into this business and consequently suffered losses of Rs.30.37 crore during the period 2006-07 to 2008-09.

(Para no. 16.1.1)

CHAPTER I: DEPARTMENT OF BIOTECHNOLOGY

Bharat Immunologicals and Biologicals Corporation Limited

1.1.1 Underutilisation of Plant and Machinery

Inadequate planning and implementation of Oral Polio Vaccine project by the Bharat Immunologicals and Biologicals Corporation Limited resulted in continuous underutilisation of plant and machinery besides infructuous capital expenditure of Rs.7.80 crore.

Bharat Immunologicals and Biologicals Corporation Limited (Company) was incorporated (March 1989) under Department of Biotechnology (DBT), Ministry of Science and Technology with the objective of indigenous production of Oral Polio Vaccine (OPV) for National Immunisation Programme under National Technology Mission on Immunisation and Research & Development of new vaccines. The project was envisaged as an integrated project including formulation and blending (Phase-I) as well as indigenous production (Phase-II) of OPV. As per Detailed Project Report (DPR), the estimated cost of the project was Rs.28.70 crore[1]. The commercial production was to start from imported bulk vaccine formulation (raw material) by way of blending and indigenous production of raw material was to be started concurrently. The production of OPV was to be switched over to indigenous production (raw material and OPV) completely based on domestic facility. Production from imported bulk vaccine formulation and indigenous production was to be commenced from 1990-91 and 1991-92 respectively, which was revised (July 1992) to 1993-94 and 1994-95.

The commercial production of OPV through imported bulk formulation started in 1995-96, after a delay of six years. The production capacity was 100 million doses for indigenously produced OPV and 600 million doses[2], if OPV is produced through blending of imported formulation. Indigenous production (Phase-II) could not take off due to the conditions imposed by Ministry of Environment and Forests that monkeys required for production and testing should not be procured from contractors and should only be procured from Central Drug Research Institute (CDRI), Lucknow or the Company should have its own breeding house. CDRI expressed its inability to supply required number of monkeys and the Company had not planned for any breeding house in initial project proposal. Since indigenous production of OPV could not take off, the Company continued blending process of imported bulk vaccine formulation to produce OPV.

In October 2002, World Health Organisation (WHO) revised criteria for Vaccine Supplier Qualification (VSQ). This was to be completed by the end of 2005. To meet WHO requirement the Company started (June 2006) upgradation of its infrastructure and completed the same in August 2007.

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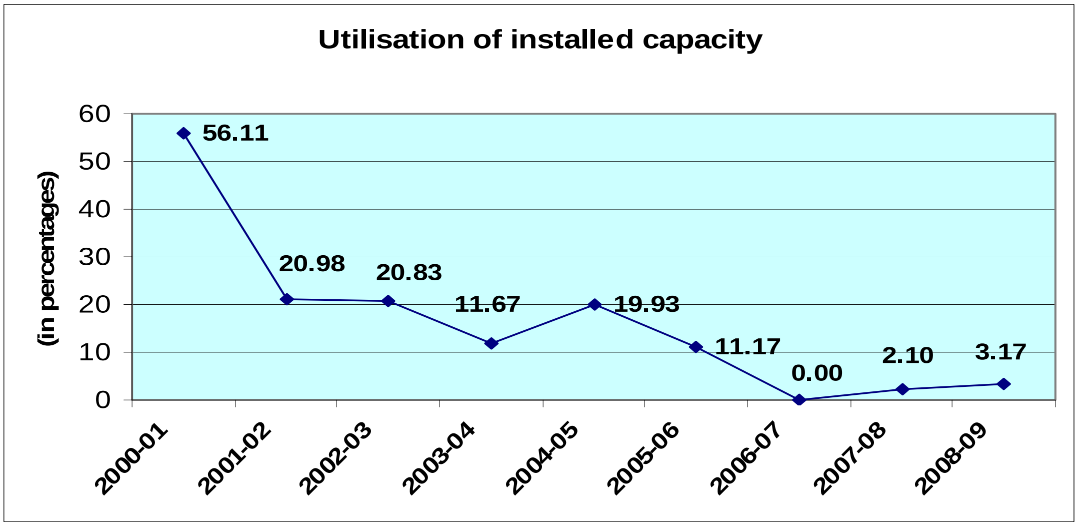
[1] ***Revised to Rs.37.70 crore in July 1992***

[2] ***From 2002-03 and it was 480 million doses from 1999-2000 to 2001-02***

It was noticed in audit that:-

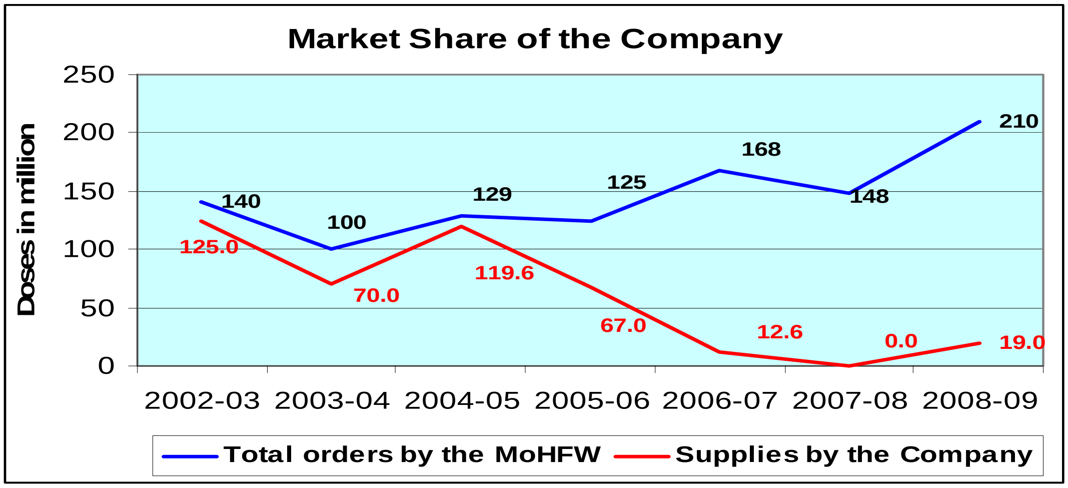
- The utilisation of the blending capacity had been declining since 2000-01. It fell to nil in 2006-07 and thereafter ranged between a meager two and three *per cent* as could be seen from the following chart: -



- The Company made an investment of Rs.44.33 crore (Gross Value of assets) in plant, machinery and other assets up to 31 March 2009 in both the phases including an expenditure of Rs.1.59 crore on construction of monkeys and animal houses in Phase-II, which was unfruitful, as Phase-II of the project could not begin.

- The up-gradation / modification of plant in line with the WHO requirement could only be completed in August 2007, after a delay of more than two years of deadline of 2005. Meanwhile, WHO removed OPV from its priority list of vaccines resulting in entire capital expenditure of Rs.6.21 crore on up-gradation of plant becoming infructuous.

- The Company was unable to get adequate supply orders from Ministry of Health and Family Welfare (MOHFW) even after fulfilling requirements of WHO and the Indian Drugs and Cosmetics Act, 1940 as could be seen from the following chart showing the total quantity of OPV purchased by the MOHFW and share of the Company which was declining from 2004-05:-



- The Company also failed to take timely action to diversify its product portfolio despite knowing the facts in March, 2000 that production of OPV was not viable because Polio virus was expected to be eradicated completely in next few years. Diversification of product portfolio was done after a delay of eight years in 2008, when it started producing dispersible Zinc tablets.

In response, the Ministry stated (September 2009) the following:-

- The Phase-II activity of bulk production of OPV could not be started because of conditions imposed by Ministry of Environment & Forests regarding procurement of monkeys for production and testing.

- At the time of establishment of the Company, there were no private OPV manufacturers. Subsequently, private OPV manufacturers entered the market and started competing with the Company. Further, due to mandatory tendering procedure laid down by Government of India, the supply orders for full capacity of the Company could not be obtained from MOHFW.

- To increase the viability and profitability of the Company and to impose technical and professional competence, the DBT was considering transfer of Management to HLL Lifecare Limited which was another Public Sector Undertaking (PSU) under the administrative control of MOHFW.

Reply of the Ministry is not convincing in view of the following:-

- There was lack of foresight on the part of the Company as well as Ministry as basic issues like availability of required number of monkeys and other animals for testing and development of bulk raw material for indigenous production and restriction, if any, from any other Ministry were not addressed properly in DPR, which not only resulted in abandonment of Phase-II, i.e., indigenous production of OPV but also non-achievement of the basic objective, for which the Company was incorporated.

- The OPV blending capacity of 480/600 million doses remained underutilised since inception of the Company. Besides delay in fulfilling WHO requirement, entire expenditure of Rs.6.21 crore incurred on this account became infructuous in view of the fact that WHO removed OPV from its priority list of vaccines in January 2007.

- The private players had entered the market in 1992-93 when the Company started producing OPV and to say that as a result of their entry supply orders for full capacity could not be obtained signifies that the Company was not able to produce OPV profitably even after so many years, and consequently, remained an inefficient producer of OPV. Also, diversification of product portfolio should have been done much earlier than the 8 years taken by the Company.

Thus, first due to lack of proper planning and implementation of the project for production of OPV, next due to delay in fulfilling WHO requirements and later, inability to procure adequate supply orders and lack of diversification of product portfolio; all led the plant to remain under-utilised since inception. This resulted in inefficient capital investment of Rs.44.33 crore, of which Rs.7.80 crore was infructuous expenditure on construction of monkey houses (Rs.1.59 crore) and up-gradation/modification of plants (Rs.6.21 crore).

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airline Allied Services Limited

2.1.1 Loss on account of payment of idle lease rent

Avoidable expenditure of Rs.2.50 crore on payment of lease rent before commencement of commercial operation of the leased aircraft.

Airline Allied Services Limited (Company) takes aircraft on lease for its operations. The Company entered into a lease agreement (March 2007) for leasing of ATR-42-320 aircraft and Canadian Regional Jet aircraft (CRJ) during September to December 2007. As per the lease agreements signed with different lessors, the lease rent was to be paid with effect from the date of delivery of the aircraft irrespective of the date of commencement of commercial operations.

The Company received the delivery of three ATR leased aircraft in September 2007 (VT-ABE), November 2007 (VT-ABF) and December 2007 (VT-ABO) at monthly lease rent of US$63,500 (Rs.25,42,540)♦ per aircraft. The Company also received the delivery of three CRJ aircraft in October 2007 (VT-RJB), January 2008 (VT-RJC) and July 2008 (VT-RJE) at monthly lease rent of US$186,125 (Rs.74,52,445), US$175,000 (Rs.69,40,500) and US$175,000 (Rs.7,505,750) respectively. The total time taken by the Company for each aircraft, from its date of delivery to the date of commencement of commercial operation, is given below.

Time taken in commencement of Commercial operation

Sl. No.	Aircraft	Date of delivery/ acceptance of Aircraft	Date of arrival of Aircraft in India	Date of commence-ment of commercial operation	Time taken in commencement of commercial operation from receipt of aircraft in India (Days)	Delay in commence-ment of operations*
	(1)	**(2)**	**(3)**	**(4)**	**(5)= (4)-(3)**	**(6)= (5)-10 days**
1.	ABE/333	07.09.2007	10.09.2007	20.09.2007	10	--
2.	ABF/351	16.11.2007	18.11.2007	01.12.2007	13	3
3.	ABO/406	14.12.2007	17.12.2007	12.02.2008	57	47
4.	RJB/10217	31.10.2007	01.11.2007	17.12.2007	46	36
5.	RJC/10052	14.01.2008	18.01.2008	22.02.2008	35	25
6.	RJE/10029	24.07.2008	26.07.2008	30.08.2008	35	25
			Total			**136**

*Ten days taken by Aircraft ABE-333 to commence the commercial operation has been taken as benchmark for other aircraft.

♦ ***Foreign Exchange rates taken are for (i) three ATR Aircraft and CRJ-VT RJB, US$= Rs.40.04 (averaged October 2007 to December 2007), (ii) CRJ-VT-RJC US$= Rs.39.66 (January 2008) and (iii) CRJ-VT-RJE US$= Rs.42.89 (August 2008).***

Audit observed (May 2008) that:

- The Company had paid lease rent amounting to Rs.2.50 crore for the idle period of 136 days without earning any revenue.
- The delay in commencement of commercial flights was mainly due to delay in completion of exterior/logo painting of aircraft and livery change etc., which should have been planned to be completed within 10 days.

The Management stated (April 2009) that:

- The painting work of other five aircraft was delayed due to non-availability of paint with Air India stores and there were procedural delays in ordering the paints.
- The Company was first airline to induct CRJ aircraft in India and facilities like Stores, Tools & Spares, Quality Control and Expatriate Engineers were individually required to be approved by Director General of Civil Aviation (DGCA), which could be done after arrival of first aircraft.
- These aircraft were leased from third parties and guidance/support was required from the manufacturers.

The reply of the Management is not convincing as:

- The Company has been in active airline business since 1996 with leased aircraft and is expected to be aware of the formalities required to be carried out in case of leased aircraft. The reply of the Management only confirms their deficiency in planning.
- Even in case of CRJ aircraft, the Company should have made all the arrangements as per DGCA regulations before taking delivery of the aircraft.
- There was no delay with regard to Certificate of Airworthiness from DGCA.

Thus, the Company incurred avoidable expenditure of Rs.2.50 crore on payment of lease rent before commencement of commercial operations of the aircraft due to not taking appropriate action.

Therefore, the Management should make all necessary arrangements before taking the delivery of the aircraft to avoid the payment of lease rent for idle period.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

Airports Authority of India

2.2.1 Loss of revenue due to delay in finalisation of advertisement contracts

Failure of the Authority to finalise exclusive advertisement contracts at various airports within the stipulated period resulted in revenue loss of Rs.5.39 crore.

Airports Authority of India (Authority) appoints agencies for licensing indoor and outdoor advertisement sites at international and domestic airports, under its control, for an agreed fee. In terms of the provisions, contained in Commercial Manual of the Authority, the process of awarding a contract for granting rights of advertisement is to be completed within a maximum of 108 days from the date of publication of Notice Inviting Tender (NIT).

In January 2004, the Authority invited tenders for licensing rights of advertisement in its 16 domestic and four international airports. Only one technically acceptable bid from TDI International India Limited (TDI) was received. The Authority in its Board meeting held in April 2004 decided to re-invite tenders as special considerations would arise in view of privatisation/restructuring of Delhi and Mumbai international airports. The Authority also approved time to time extensions of the existing contracts and also awarded site specific contracts for smaller periods at then existing lower rates of licence fee.

In persuasion of Board of Director's decision, fresh NIT was published in June 2004. In the meanwhile, the TDI filed a writ petition in Delhi High Court, which was dismissed by the High Court in October 2004. On the dismissal of the petition, the TDI filed an appeal in the Supreme Court in November 2004. The Supreme Court initially granted '*Status Quo*', but vacated the same on 29 November, 2006 and directed Authority, on the basis of undertaking given by it before the Court, to complete the whole process of awarding the fresh contracts for advertisement for remaining 18 airports by 28 February 2007.

The Commercial Advisory Board (CAB) of the Authority decided (November 2006) to invite fresh tenders for advertisement rights individually for each airport. However, due to delay in completion of various activities involved in award of contracts, the CAB decided to shift the date for finalisation of tender to 31 March 2007 against 28 February 2007 fixed by the apex Court.

Audit observed that:

- In respect of eight airports, the delay of 88 to 218 days occurred, beyond 28 February 2007, in finalisation of the fresh contracts.
- The delay was mainly due to unreasonable excess time taken by the Regions/Headquarters office in processing of the tenders and finalisation of the contracts.
- The delay was also attributable to incorrect fixation of Minimum Reserve Licence Fee.
- Due to delay in finalisation of fresh contracts for advertisement rights, the Authority has incurred a revenue loss of Rs.5.39 crore due to charging of licence fee at lower than prevailing market rates.

The Ministry replied (September 2009) that:

- The Commercial Manual of the Authority provides 108 days to complete the bidding process from the date of publication of NIT till the evaluation of financial bid/ decision for award and not from the pre tendering formalities to award.

- The Manual provides additional 15 days for completion of all the formalities by the successful tenderer from the date of award and the apex court did not give any directions regarding the time frame for awarding of fresh contracts.
- It was also mentioned that in respect of Pune Airport the delay was attributable to court petition filed by one of the tenderers and finally contract could be awarded on 31 July 2007.

The reply of the Ministry is not acceptable as:

- The terms of the directives of the Supreme Court to complete the entire bidding process by 28 February 2007 were based on the undertaking given by the Authority in the Court.
- The loss worked out in Audit is up to the date of award excluding 15 days allowed for completion of all formalities after issue of award letter.
- In respect of Pune airport case, the High Court did not grant the stay, yet the financial bids were opened on 20 June 2007. Finally, the Court disposed off the case on 21 June 2007.

The Authority did not take appropriate steps to finalise fresh contracts concurrent with the expiry the existing contracts. The Authority could not even adhere to time schedule given by it to the Supreme Court. Non adherence to this time schedule resulted in revenue loss of Rs.5.39 crore due to charging of licence fee at lower than market rate.

2.2.2 Loss due to non-availing of Custom Duty concession

Airports Authority of India incurred a loss of Rs.4.27 crore on import of Airfield Fire Fighting and Rescue Vehicles due to non-availment of customs concession under Export Promotion of Capital Goods scheme.

Airports Authority of India (Authority) decided (October 2006) to import 15 Airfield Fire Fighting and Rescue Vehicles (AFFRVs) for three airports[1] and one fire training centre[2]. These AFFRVs were being imported to replace the existing Airfield Crash Fire Tender (ACFT). It was observed that:

- The Airfield Crash Fire Tenders were exempt from customs duty under Served From India Scheme (SFIS). This exemption of customs duty on vehicles was discontinued vide Government of India (GOI) notification of May 2006.
- Export Promotion of Capital Goods (EPCG) Scheme was available since August 2004 for import of capital goods.
- As per para No. 5.1 of this scheme, import of capital goods for pre-production, production and post-production was allowed at five *per cent* customs duty subject to an export obligation[3].

[1] ***Airports namely Kolkata, Chennai and Thiruvananthapuram***
[2] ***Fire Training Centre at IGI Airport, New Delhi***
[3] ***Equivalent to eight times of duty saved on capital goods imported under EPCG scheme to be fulfilled in eight years reckoned from authorisation issue date.***

- As per Para 5.4 (i) of the scheme the export obligation shall be fulfilled by export of goods manufactured/services rendered by the applicant.

The first two consignments of six AFFRVS arrived in Mumbai in May and July 2007. The Authority filed documents with customs department for duty exemptions under SFIS which were rejected by the customs authorities as it was not allowable on vehicles as per the GOI notification of May 2006. The consignments were cleared after payment of customs duty of Rs.5.05 crore.

Authority changed the course of action for clearance of remaining nine AFFRVs and decided (August 2007) to avail customs duty concession under EPCG Scheme. The Authority obtained (March 2008) authorisation under EPCG Scheme concessional duty from Director General of Foreign Trade (DGFT). The EPCG Scheme was used for the clearance of remaining nine AFFRVs (April 2008). As against the customs duty of Rs.7.28 crore, the Authority paid concessional duty of Rs.1.14 crore only under EPCG Scheme and thereby saved Rs.6.14 crore.

Audit observed (January 2009) that since the exemption of customs duty on the import of vehicles was not available under SFIS scheme from May 2006 the Authority could have opted for the import of first two consignments of these vehicles under EPCG scheme available during that time in order to avail duty exemption.

- By not doing so, the Authority had paid Rs.5.05 crore as customs duty on import of first two consignments of AFFRVs. Had the authority initially approached the customs department for duty exemption/concession under EPCG scheme it would have paid Rs.0.78 crore as duty and saved Rs.4.27 crore on import of first two consignments also.

The Ministry in its reply stated (July 2009) that due to divergent views of two Government Departments i.e., Revenue and Commerce and urgent operational requirement, the Authority was forced to make full payment of the customs duty.

The reply of the Ministry is not convincing as:

- The Authority was getting the benefit of exemption of duty on import of ACFT under SFIS earlier. It is the duty of the procurement agency to get themselves acquainted with the applicability of duties and availability of exemption or concessional schemes of GOI on import of capital items to safeguard its financial interest.

The Authority should have first obtained the clarification on import of AFFRVs under SFIS and if this was not allowable, then at least the Authority should have applied for import under EPCG scheme of concessional duty (five *per cent*) well before the custom clearance of the goods in May 2007 so that it could have saved customs duty amounting to Rs.4.27 crore.

2.2.3 Wasteful expenditure on construction of ill planned infrastructure facilities

The Airports Authority of India incurred wasteful expenditure of Rs.3.24 crore on construction of civil and electrical works in spite of being aware that Begumpet airport would cease for all civil aviation operations in 2008.

The Begumpet Airport at Hyderabad had nine parking bays for aircraft. Out of these nine parking bays, only four had aerobridges connected through a corridor. The Begumpet Airport proposed (November 2003) for a fifth aerobridge at domestic terminal to facilitate the rise in passengers traffic/aircraft. Accordingly, the security hold area on the ground floor of the domestic terminal building was proposed to be extended on western side of domestic terminal building to connect with an additional aerobridge to cater to the services of additional aircraft/passengers. The scope of work was approved in August 2004 by the Airports Authority of India (Authority) and the work was awarded in November 2005 with scheduled completion period of five months, i.e., April 2006. However, the construction work was completed in January 2007 at a cost of Rs.3.24 crore.

Audit observed (March 2009) that:

- The Authority was well aware at the time of entering into (December 2004) concession agreement with the Ministry of Civil Aviation that Begumpet airport would be closed for all civil aviation operations with effect from March 2008 consequent upon the commissioning of the Rajiv Gandhi International Airport at Shamshabad, Hyderabad.
- As against this fact, the Authority proceeded with award of contract in November 2005 for civil and electrical work by spending Rs.3.24 crore for installation of aerobridge.

The Ministry stated (December 2009) that:

- The construction of the additional aerobridge at domestic terminal was planned to meet the unprecedented traffic growth. Number of passengers had increased from 28.5 lakh in 2004-05 to 57.4 lakh in 2006-07 registering a growth of 102 *per cent* and the need was justified.
- The requirement of aerobridge for Begumpet airport was linked to procurement of 40 aerobridges required for other airports. Due to technical reasons, the procurement of aerobridge for Begumpet was shelved. The constructed area was put to public use and the area earmarked for fixed finger, which constituted only six *per cent* of the total area, was officially used for stores.

The reply of the Ministry is not acceptable because:

- The Authority was well aware in December 2004 that existing airport would cease for all civil operations on commissioning of the Rajiv Gandhi International Airport at Shamshabad.
- The Authority contested that one more aerobridge was required to handle the unprecedented traffic growth in 2007. However, traffic was managed with the

then existing commutation facilities at the airport without procurement and installation of the aerobridge.

- The Authority, after award of construction work in November 2005, limited themselves to the civil and electrical works and not included the need for procurement of aerobridge for Begumpet airport while planning for procurement of 40 aerobridges for other airports.

- The Authority's contention regarding its utilisation is also not convincing as the facility was created for installation of aerobridge and not for utilisation as stores.

Thus, injudicious decision of the Authority to create infrastructure facility for installation of the aerobridge resulted in wasteful expenditure Rs.3.24 crore.

National Aviation Company of India Limited

2.3.1 Avoidable interest benefit to customer airlines

Failure to raise invoices in time for the ground handling services rendered to the customer airlines and non levy of penal interest for the delay in receipt of payment as per contractual provisions resulted in avoidable loss of interest of Rs.9.83 crore.

National Aviation Company of India Limited (Company) provided ground handling services to other airlines at different airports in India as per the Ground Handling Agreements (GHAs) entered into with them. As per the terms of the GHAs, the Company was to send the invoices for the services rendered on monthly basis and the customer airlines were to settle the invoices within credit period of 30 days from the date of invoice as per terms of the GHAs.

It was observed in Audit (August 2008) that during April 2005 to May 2009:

- There were delays in raising invoices on six customer airlines♣ which ranged between 5 to 181 days, considering 10 days from the end of the month as a reasonable period for raising invoices.

- Even after the invoices were raised by the Company belatedly, the customer airlines did not make the payments within the credit period of 30 days. The delay in settlement of invoices after considering the 30 days credit period ranged from 5 to 1325 days.

- Of the six GHAs, the Company had incorporated a clause in two GHAs only for charging of penal interest for delayed payment beyond the credit period.

- The Company did not charge any penal interest for the delayed payments on the basis of either the specific provisions of the GHAs or canons of sound financial propriety.

♣ *Air Arabia, Deccan Aviation, Egypt Air, Go Air, Kingfisher Airlines and Paramount Airways.*

The loss of interest due to delay in raising invoices and delay in receipt of payments[1] from the six customer airlines during April 2005 to May 2009 worked out to Rs.9.83 crore[2].

The Management in reply stated (June 2009) that:

- In order to minimise delay for payment, a system of regular follow up by its finance department was done which did not yield results. Hence, a clause for charging penal interest was entered into the agreements. The Company had also started putting some customer airlines on cash basis.

- Due to practical and procedural delays, it was not possible to raise invoices within a period of 10 days (as considered by audit), but generally it takes not less than 30 days from the end of the month to raise the invoice.

- The delay in signing the agreement with some customer airlines and dispute for security charges caused delay in billing.

- The isolated cases of delayed payment and billing pointed out by audit may be viewed from the commercial point of view and loss of interest due to delayed payment was a part of the ground handling business deals.

The reply of the Management is not convincing on account of the following:

- The clause of penal interest was not included in all the contracts. Further, in cases where the clause was included, the Company failed to invoke the same as no penal interest was recovered.

- The period of not less than 30 days contemplated by the Management for raising invoices was not reasonable. The ground handling agencies who handle the Company's flights at foreign stations raise the invoices on the Company within seven to ten days from the closure of the billing cycle.

- The action of placing customer airlines on cash basis was also delayed by the Company.

- The cases point out failure of the Company to adopt a commercial approach by timely raising the invoices and realisation of dues from customer airlines for protecting its financial interest when the Company itself had been availing of working capital loans and was paying substantial interest on such loans.

Thus, due to weak internal controls, there was a failure in the system of raising invoices on time and collection of dues. Consequently, the financial interest of the Company could not be safeguarded resulting in an avoidable loss of interest of Rs.9.83 crore and an undue benefit to the customer airlines.

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[1] ***At the interest rates provided in GHA for two airlines while @18 per cent penal interest rate for other four airlines.***

[2] ***Due to delay in raising invoices–Rs.1.36 crore and delay in receipt of payments–Rs.8.47 crore***

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

2.3.2 Avoidable expenditure on payment of late fee

Failure to ensure effective coordination among various departments for timely dispatch of unserviceable components resulted in avoidable payment of Rs.8.35 crore during July 2006 to January 2009.

National Aviation Company of India Limited (Company) entered (16 May 2006) into a Component Support Agreement (CSA) with United Airlines (UA) for spares support for its dry leased[1] B777-200 ER aircraft. As per the CSA, UA was to provide exchange services[2] for the components of B777 aircraft operated by the Company.

The Company was liable to pay an exchange access fee for each component exchanged at the rate of six *per cent* of the Current List Price (CLP) in US Dollar subject to a minimum of US$250. The Company was also to deliver at its own expense and risk, all unserviceable components removed from B777 aircraft to the San Francisco repair facility of UA within 10 days of receipt of a serviceable component. In the event of delay, a late fee[3] was to be paid by the Company.

Audit observed (June 2008) that there were delays in the return of unserviceable components ranging from 3 to 322 days with an average delay of 63 days during July 2006 to January 2009. The CSA was terminated in January 2009 by which time expenditure amounting to Rs.8.35 crore[4] was incurred towards payment of late fee to UA by the Company for delays in the return of unserviceable components due to ineffective intra-departmental coordination.

The Management in reply stated (June 2009) that:

- The Component Exchange Program with UA wherein the Company had to bear the repair cost of the failed components besides the return of the unserviceable components within ten days was the best option available taking into account the costs and other terms.
- Several agencies were involved in movement of the unserviceable components which led to delays and the follow-up was constrained on account of the present IT system which required modernisation.

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[1] ***Dry lease- a type of lease in which the aircraft is taken on lease without the operational crew and cabin crew. The maintenance, insurance, etc., of the aircraft is to be undertaken by the Company which takes aircraft on lease.***

[2] ***The term component exchange services refers to services with respect to B777 aircraft components operated by Buyer, which are common to United's components, upon Buyer's order and United's acceptance. Buyer will order services by issuing its standard purchase order from time to time which shall be subject to the terms and conditions of the Agreement.***

[3] ***For delay upto 18 days and 30 days, a late fee of 1.5 per cent and two per cent respectively of the manufacturer's CLP***

[4] ***2006-07 (July 06 to March 07)–Rs.3.04 crore; 2007-08–Rs.4.72 crore; and 2008-09–Rs.0.59 crore (April 08 to Jan 09)***

The reply of the Management is not convincing on account of the following:

- After having selected the best available option taking into account the cost and other terms, the Management failed to safeguard the financial interest of the Company by ensuring the timely dispatch of the unserviceable components within the time limit stipulated in the CSA.
- Even with the existing IT constraints, which the Management was aware of at the time of entering into the CSA, the requisite co-ordination amongst various departments was inadequate.

Thus, failure of the Company to ensure effective intra-departmental co-ordination resulted in avoidable payment of Rs.8.35 crore towards late fee for the dispatch of unserviceable components.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

2.3.3 Failure to revise contribution towards Contributory Medical Benefits Scheme

Failure to revise contribution towards the Contributory Medical Benefits Scheme, despite recommendations of various Committees, resulted in under recovery of contribution of Rs.7.28 crore during April 2006 to March 2009.

National Aviation Company of India Limited[1] **(**Company) through a scheme known as Contributory Medical Benefit Scheme (CMBS) extends medical facilities to the dependent family members of its employees. The rate of contribution[2] was Rs.13 per month per employee since 1994. The Company constituted (March 2002) a Committee to examine the possibility of obtaining medical insurance policies with a view to curtail the medical expenditure. The Committee stressed (October 2002) the need for revision in the contribution rate per employee. However, no further action was taken on the report of the Committee.

The Company constituted (July 2004) another Committee to review the proposals of the earlier Committee. The Committee proposed (October 2004) increasing the existing amount of contribution from Rs.13 per month to a percentage (0.55 *per cent* to one *per cent*) of the basic pay per beneficiary including the employee and suggested implementing its proposal during the negotiations of the next charter of demands. Meanwhile, the Medical Services Department of the Company proposed (February 2005) a revision in the rate of contribution towards CMBS to Rs.50 per month per beneficiary to generate more revenue in order to reduce the increased cost of medical treatment since the benefit ceiling had been increased from Rs.8000 to Rs.12000 per beneficiary in 1994 without any increase in the contribution. In response to audit observation (November 2005), the Company discussed (August 2006) the issue with Air India Employees Guild (AIEG) which accepted that the recovery should be a percentage of the basic pay.

It was observed in Audit (December 2008) that:

[1] Erstwhile Air India Limited
[2] The rate of contribution was irrespective of number of family members.

- The Company had signed nine agreements with various employees' unions for upward revision of the pay and allowances of employees from January 2005 till June 2008 but could not effect an upward revision in the contribution under CMBS.

- The expenditure incurred on CMBS was Rs.46.82 crore[1], against this the contribution recovered from employees was only Rs.1.87 crore[2] during the period 2006-07 to 2008-09.

There was under-recovery of contribution under CMBS of Rs.7.28 crore[3] during the period April 2006 to March 2009.

The Management in reply stated (June 2009) that the issue of increase in the contribution under CMBS was taken up in various forums in the Management and with the employees unions. It was also discussed during negotiations of the Charter of Demands. Further, the unions/Associations/Guilds had demanded that the benefit ceiling per beneficiary be enhanced. However, even after protracted discussions, a consensus could not be reached and neither the benefits nor the contribution was increased.

The reply of the Management is not convincing on account of the following:

- The instructions of Ministry of Civil Aviation (August 2004) to fully protect the interest of the organisation during wage negotiations with the Unions were not complied with.

- The Company failed to include the matter regarding increase in the CMBS contribution at the time of negotiations for wage revision.

- The Company had been availing of working capital loan for its day to day operations carrying a high rate of interest. The gap in the total amount recovered through CMBS contribution and the actual amount spent for providing medical facilities to employees further burdened the already strained resources of the Company.

Thus, failure of the Management to increase the employees' contribution under CMBS despite the recommendations of its own Committees resulted in under-recovery of Rs.7.28 crore during the period April 2006 to March 2009.

The matter was reported to the Ministry in July 2008; their reply was awaited (November 2009).

2.3.4 Wasteful expenditure on rent due to non-utilisation of leased premises

Failure to surrender leased premises without usage for seven years resulted in a wasteful expenditure of Rs.3.05 crore towards lease rent.

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[1] The expenditure of Rs.46.82 crore pertains to erstwhile Air India Limited
[2] Recovery of CMBS Contribution from employees
[3] Based on lowest percentage increase of 0.55 per cent on the lowest grade of pay and allowances for General Cadre of Officers (i.e. grade 25 with minimum basic pay of Rs.8550)

National Aviation Company of India Limited (Company) occupied 444.80 square metres of the premises owned by The New India Assurance Company Limited (NIACL) in Mumbai on monthly tenancy basis since 1960. NIACL intimated (February 2001) its intention to terminate the tenancy and asked the Company to vacate the premises. The Company after obtaining permission from Secretary, Ministry of Civil Aviation expressed (October 2001) its willingness to hand over the premises. The user department[1] of the Company vacated the premises in November 2001 but did not surrender it and claimed a compensation of Rs.six lakh from NIACL towards the fittings and fixtures provided by the Company in the premises. NIACL issued (November 2004) a notice under Public Premises (Eviction of unauthorised occupants) Act, 1971 for unauthorised occupation and eviction of the premises besides demanding damages for the unauthorised possession of the premises. The Company referred (2005) the matter to Cabinet Committee on Disputes (CCOD).

The CCOD observed (March 2006) that the premises were not used by the Company and approached Central Public Works Department (CPWD) for fixing the rent to be paid by the Company keeping in view the market rent of the area. CPWD assessed the revised rent at Rs.3,56,210 per month. Accordingly, the Company paid Rs.2.91 crore[2] towards arrears of rent from November 2001 to September 2008 and thereafter settled an amount of Rs.0.14 crore for the remaining period (October 2008 to January 2009).

It was observed in Audit that:

- The Company had not used the premises for 86 months (November 2001 to December 2008) and also did not surrender the same.
- The Company had to pay rent at the revised rate of Rs.3,56,210 per month w.e.f., November 2001 without using the premises.
- Despite permission (October 2001) from Ministry of Civil Aviation to surrender the premises, the Company did not surrender it.
- The Board approved the surrender (December 2008) of the premises in a routine manner but neither directed that responsibility be fixed for the infructuous expenditure nor did the Board instruct the Management to put in place an effective monitoring system in order to prevent such occurrences in future.

This resulted in wasteful expenditure of Rs.3.05 crore towards lease rent by the Company.

While confirming the facts the Management stated (June 2009) that:

Fresh plans for utilisation of the premises in the year 2004 were worked out and the issue of reoccupation of the premises was in continuous consideration at relevant times. However, NIACL initiated eviction proceedings on the grounds of requirement of space

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[1] ***Commercial Department***

[2] ***This excludes an amount of Rs.0.05 crore paid towards rent at the old rate for the period from November 2001 to March 2007.***

for self utilisation and the matter was referred to CCOD in 2005. The final decision to surrender the premises was taken by the Board in December 2008.

The reply of the Management is not convincing on account of the following:

- No action was taken by the Company to utilise the premises after vacating it in November 2001.

- The Company had not surrendered the premises even after the direction of CCOD in February 2008 to settle the issue with NIACL.

- It was only after the matter was pointed out by audit (September 2008) that the Company proposed (December 2008) to the Board to expedite a decision in the matter and the premises were finally surrendered in January 2009.

Thus, the lackadaisical approach of the Company in surrendering the premises which were not utilised for seven years since November 2001 resulted in a wasteful expenditure of Rs.3.05 crore towards lease rent.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

CHAPTER III: MINISTRY OF COAL

Bharat Coking Coal Limited

3.1.1 Loss of revenue due to delayed implementation of revival scheme of Bhojudih Coal Washery

Deshaling Plant commissioned at a cost of Rs.6.54 crore for feeding dirt free coal to the main washers was non-operational. Batac Jig, HM Bath and Process Control System malfunction caused migration of washed coal to middling. This impaired the improvement of quality of middling to qualify the same for sell as Power Clean Coal (PCC). The company sustained a loss of Rs.51.82 crore during 2007-08 to 2008-09. Renovation jobs of these portions of plants of Bhojudih Coal Washery were not completed even after a lapse of four years.

Bhojudih Washery was set up in 1962 for washing of raw coal to produce washed coal (ash content between 18.5 and 20.9 *per cent*) for supply to steel plants and also to produce middling (ash content between 37 and 40 *per cent*) for supply to Power Houses. The washing section of the Washery consisted of mainly one 300 TPH[1] Batac Jig and one 250 TPH HM[2] Shallow Bath (main washers of the plant). Subsequently, one Deshaling Plant was commissioned in March 1997 at a cost of Rs.6.54 crore for elimination of distinct dirt and shale materials from the raw coal before feeding to the main washers. Operation of the Deshaling plant was completely stopped by washery management since October 1999.

Audit observed (March 2000) that the ash content of middling had improved (between 32 and 35 *per cent*) during 1997-1998 when the Deshaling Plant was in regular operation and emphasised on operation of the plant regularly for quality improvement and obtaining better value. The Management agreed (June 2003 and September 2003) that ash content of middling would come down to the level of 33-35 *per cent* from the then existing level of 37-40 *per cent* by operation of the Deshaling Plant. This would qualify the product to sell under product name 'Power Clean Coal (PCC) with average ash content within 34 *per cent*'. Since sale price of PCC was much higher than the sale price of middling, there was scope to earn more revenue. Audit noticed (February 2006) that despite agreement of the Management for operation of the Deshaling Plant, parts were removed from the Deshaling Plant (between June 2001 and November 2005) and utilised in the Main Plant. This cannibalisation left the Deshaling Plant unusable.

The disabled Deshaling Plant could not feed clean raw coal to Batac Jig and HM Bath. The Batac Jig, HM bath, Process Control System were also malfunctioning for years. These weaknesses resulted in migration of washed coal to middling which on an average ranged between 5.8 *per cent* and 8.4 *per cent* during the last four years ending 31 March 2009.

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[1] ***Tonne per hour***
[2] ***Heavy Media***

The Management finally decided (November 2005) to renovate all these portions of plant within a span of 10 to 15 months at a total cost of Rs.1.86 crore[1] to ensure feeding of dirt free coal to washers and to arrest the migration of costlier clean coal to cheaper middling.

The renovation work was not completed even after four years and the loss due to migration of washed coal to middling was Rs.48.26 crore during the period from 2007-08 to 2008-09. Besides, the Company had also sustained a loss of revenue of Rs.3.56 crore for selling middling in place of PCC during the same period.

The Management accepted (July 2009) the observations and stated that the proposal for renovation of Deshaling Plant had been freshly initiated and the renovation of Process Control System was also under active consideration. Loss due to migration could be minimised after successful implementation of the revival scheme. Steps had already been taken for implementation of the renovation schemes of Bhojudih Washery.

The fact remains that the Management failed repeatedly (June 2007 and September 2008) in their assurances to audit to complete renovation. Even after a lapse of four years since the approval of the revival scheme (November 2005), the Deshaling Plant is still idle and no fresh action has been initiated despite misplacing of the concerned files twice (April 2006 and January 2008). Being a loss making company it cannot afford recurring revenue losses year after year due to inaction on approved renovation projects.

Thus, due to non-implementation of the renovation jobs of Bhojudih washery, the Company had to sustain a loss of Rs.51.82 crore during 2007-08 and 2008-09 along with idle investment of Rs.6.54 crore on Deshaling Plant. The Company should immediately implement the renovation job of Bhojudih washery to reduce the recurring losses.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

Central Coalfields Limited

3.2.1 Loss of revenue due to incorrect fixation of washed coal price

Failure of the Company to fix correctly the washed coal price of Piparwar Coal Preparation Plant of Central Coalfields Limited resulted in a loss of revenue to the tune of Rs.67.83 crore on value of washed coal sold to power houses other than NTPC Limited during the period from 2004-05 to 2008-09.

The Coal Preparation Plant (CPP) in Piparwar Area of Central Coalfields Limited (Company) receives raw coal for washing mainly from lower and upper Dakra seam of Piparwar Area. The washed coal of the CPP is supplied to power houses. The price of the washed coal supplied to power houses[2] is unilaterally fixed by the Company, taking into account the various input cost components viz., raw coal price, power tariff, diesel rate, All India Consumer Price Index, Wholesale Price Index and other related factors. The price so fixed was subject to mid term revision, if there was any change in the cost components.

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[1] *Deshaling Plant (Rs.72.40 lakh), Batac Jig (Rs.70.30 lakh), HM Bath (Rs.17.94 lakh) and Process Control System (Rs.25.59 lakh)*

[2] *Power houses other than NTPC Limited*

Audit noticed that from 2001-02 onwards, the coal of upper Dakra seam of the Piparwar Area was declared as E grade and the CPP started using both E grade and F grade[1] coal from upper and lower Dakra seam respectively from 2002-03 onwards. However, while fixing the price of washed coal, the Company considered the raw coal price of cheaper F grade coal only for the total quantity of coal fed to the CPP instead of considering the raw coal prices of both E and F grade in proportion to their quantity fed. It was seen that during 2004-05 to 2008-09, the ratio of E and F grade coal used in the CPP ranged between 27:73 and 49:51 and there was short realisation of revenue varying between Rs.40.50 to Rs.84.50 per tonne during the above period for washed coal supplied to power houses. This resulted in under realisation of revenue to the tune of Rs.67.83 crore for 11.02 million tonne of washed coal sold to power houses.

While confirming the facts regarding use of both E and F grade coal of different coal seams for washing, the Management stated (December 2008 and July 2009) that:

- The Area Management was billing to power houses on the basis of composite feed to the CPP which was coming as F grade coal having ash percentage in the range of 38 to 40.
- The parameters considered for fixation of washed coal notified price were price of F grade coal, capacity utilisation at 85 *per cent* and yield at 74 *per cent*.
- Due to feeding of E and F grade coal in ratio, the actual yield was 83.86 *per cent* and 86.96 *per cent* for 2007-08 and 2008-09 respectively and thereby, the Company had additional gain in terms of yield percentage and earned additional revenue for every tonne of coal fed every year.
- The Company had not incurred any loss considering the rate of F grade coal in determining the washed coal price.

The contention of the Management is not convincing in view of the following:-

- In two other non-coking coal washeries of the Company viz., Kargali and Giddi, where the ash percentage of composite feed was comparable[2], the Company followed the weighted average price of the composite feed in the ratio of blending of E and F grade coal.
- While the improved yield percentage had led to improved revenue, the Company could have earned further revenue of Rs.67.83 crore had the price of E grade coal was also taken into account on weighted average basis in line with the methodology adopted for the same for other washeries of the Company. By not doing so, the Company failed to protect its financial interests.

Thus, due to incorrect fixation of price of washed coal of Piparwar CPP, the Company suffered a loss of revenue of Rs.67.83 crore during 2004-05 to 2008-09. The Company should take immediate steps to remove deficiency in its price fixation.

[1] ***E grade F grade- Different qualities of coal. E grade is superior than F grade***

[2] ***Ash percentage ranged between 36.3 to 42.5 and 42.0 to 46.4 for Kargali and Giddi respectively during 2004-05 to 2007-08***

The matter was reported to the Ministry in August 2009; their reply was awaited (November 2009).

Coal India Limited

3.3.1 Avoidable payment towards provident fund contribution on leave encashment

Coal India Limited and its subsidiaries deposited the employers share of Rs.17.26 crore towards provident fund contribution on leave encashment with Coal Mines Provident Fund Authority, though the same was not permissible as per extant law. Practice was not stopped despite specific Order of Supreme Court of India in this regard in another Civil Case.

As per Coal Mines Provident Fund (CMPF) Scheme framed under Coal Mines Provident Fund Act 1948, provident fund contribution was to be made on total emoluments as covered under the definition of "Basic Wages" under the Scheme. The definition of "Basic Wages and Total Emoluments" under CMPF Scheme was similar to that defined in EPF[1] scheme and did not include leave encashment.

As per compendium of Coal India's Service Rules 1998 (Volume-I), leave encashment benefits are not reckoned as salary for the purpose of Provident Fund (PF), Gratuity and Bonus etc.

Audit noticed (December 2008) that Coal India Limited (Company) and its subsidiaries[2] had paid Rs.17.26 crore towards provident fund contribution (employer's share) on leave encashment for the period from April 2008 to March 2009. This was done to comply with the directives issued by CMPF Commissioner (August 1988) on the ground that leave salary was subject to provident fund deduction. Instruction was also issued by the authority to modify the existing instructions/rules of the Company accordingly.

The Supreme Court of India in a judgement (12 March 2008) concerning contribution to PF on leave encashment in another EPF case held that encashment of leave did not attract PF contribution.

The Management stated (January and July 2009) that CMPF Commissioner was a statutory authority on the subject of CMPF and the Company was under obligation to abide by the instruction of the CMPF authorities. They paid PF contribution on leave encashment on the basis of the opinion of their legal department and under the premise that the term emoluments, basic wages *etc*., carried different meaning under the CMPF Act from the EPF Act.

The Management's view is not acceptable on the ground that the definitions of "Basic Wages**"** under CMPF Act and EPF Act were the same and did not include leave encashment. The Management had the scope to approach CMPF Commissioner for a

[1] Employees Provident Fund

[2] Eastern Coalfields Limited, Central Coalfields Limited, Bharat Coking Coal Limited, Mahanadi Coalfields Limited, Northern Coalfields Limited, Southeastern Coalfields Limited, Western Coalfields Limited and Central Mine Planning & Design Institute Limited

review of the order dated 31 August 1988 and also challenge the decision of CMPF authority under the court of law which they did not avail of.

Hence, PF contribution on leave encashment was not in order as per the extant law. The Company should immediately challenge the CMPF Commissioner's orders in line with the judgement of the Supreme Court of India.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

Eastern Coalfields Limited

3.4.1 Loss due to pilferage of coal in transit and slippage in quality of coal supplied

Chitra Projects under Eastern Coalfields Limited failed to sell coal in required size and quality to the thermal power stations of NTPC Limited. The Company had to sustain loss of Rs.65.17 crore in the form of grade slippage (supply of stone/shales etc. along with coal) during last four years ending 31 March 2008 as the contractors engaged in breaking of coal, picking out stone/shales, transportation and loading of coal into wagons at siding failed to conduct proper supervision, control and stop pilferage.

Coal produced at Chitra mines of Eastern Coalfields Limited (Company) was mainly sold to Thermal Power Stations (TPS) of NTPC Limited (NTPC). In order to ensure supply of coal in required sizes and quality, the stones/shales and extraneous material contained in the coal were picked out before crushing the same below 200 mm size. These activities were outsourced. The contractors were also entrusted with allied jobs, i.e., maintenance of weigh-bridge at the siding, closing of door of wagons and guarding of coal at the sidings during 2004-05 to 2007-08. The Company paid Rs.48.55 crore[1] for despatch of 41.14 lakh tonne of coal to the contractors.

It was noticed by Audit (May 2006 and May 2009) that the Company adopted derived method[2] to check enroute shortage. This method involves human error as it gives approximate figures. Despite the fact that the local staff regularly reported pilferage of coal en-route between dump yard and railway siding to the local police, cost of negligible shortage of 542.19 tonne, i.e., Rs.0.11 crore was recovered from contractors' bills. The TPSs deducted Rs.65.17 crore for grade slippage of coal (supply of stones/shales etc.). The contractors were not made responsible for the amount deducted by the customers for grade slippage as well as for supply of oversized stone as per terms and conditions of the work orders.

The Management stated (June 2006, March 2009 and May 2009) that:

- As per terms of work orders, any shortage beyond permissible limit had to be borne by the contractors. The payment to the contractors was done after

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[1] Picking charges (Rs.1.20 crore), crushing charges (Rs.1.85 crore), allied jobs (Rs.5.68 crore) and transportation and loading charges (Rs.39.82 crore)

[2] The method adopted by the Management to calculate the enroute shortage by deducting the opening stock of coal as per volumetric measurement at the siding from the sum of closing stock of coal at siding and weight as recorded in the railway receipt for dispatch of coal.

considering the quantity of coal transported, despatched (R/R weighment) and the stock available which was the most dependable and scientific procedure to assess the quantity shortage.

- Installation of another weighbridge was under process to cross check any shortage beyond permissible limit for which recovery at double the notified value of coal would be possible.
- The Management admitted that security arrangement was bare minimum.

The Ministry stated (October 2009) that:

- In open cast mine (like Chitra) some extraneous material along with coal was inevitable and as such there was no provision in the Coal Supply Agreement for quality deduction. During peak hours due to accumulation of stocks, to avoid demurrage and to ensure steady supply, oversized coal was supplied which resulted in grade slippages.
- However, quality deduction had been reduced from 15.87 *per cent* in 2004-05 to 6.95 *per cent* in 2007-08. The Company was also in touch with the District Administration for stoppage of pilferage of coal.

Replies of the Management/ Ministry are not convincing since:

- The Ministry had itself agreed that oversized coal was supplied leading to grade slippage.
- Inadequate security arrangements resulted in pilferage of coal, the present system of weighment, despatch by the contractors lacked control, as the shortage of supply of clean coal enroute was compensated with stones/soils etc.
- The improvement in quality in 2007-08 was due to supply of better quality coal and not stopping of pilferage.
- A loss making Company should have ensured better management control and security in the despatch of coal to maximize its revenue.

Thus, the Company had sustained a loss of Rs.65.17 crore in the form of grade slippage between 2004-05 and 2007-08. The Company should take immediate steps to strengthen the system of security, weighment and despatch of coal to curtail its mounting losses.

Mahanadi Coalfields Limited

3.5.1 Improper finalisation of purchase orders

A purchase order for procurement of conveyor belts at a value of Rs.5.15 crore was finalised and issued to a firm but the contract could not be finalised. The Company had to purchase the same material from alternate source at an additional cost of Rs.3.50 crore but it could not enforce the risk purchase clause in the absence of a valid contract.

Mahanadi Coalfields Limited (Company) issued a purchase order to Firm A[1] on 30 December 2003 for Rs.5.15 crore for procurement of 26 sets of Conveyor Belts for reorganisation of underground transport and loading system for its Orient Area mine. This was to ensure reduction of cost of production of coal by Rs.404 per tonne. The supplier was to submit a performance bank guarantee (Rs.51.36 lakh).

Audit noticed in October 2004 and April 2008 that:

- Firm A requested the Company at repetitive intervals on 12 January 2004, 27 January 2004 and 19 February 2004 to accept in lieu of performance guarantee, its Omnibus Bank Guarantee for Rs.50.00 lakh submitted to the holding company Coal India Limited for work in its subsidiaries.
- Firm A withdrew their offer on 10 March 2004.
- Despite requests of Firm A, the Company issued an amended purchase order only on 29 March 2004.
- The Company ultimately cancelled the Order on 25 October 2004 and resorted to alternate procurement at the risk and cost of Firm A and finalised the order (January 2006) through Firm B[2] and Firm C[3] for procurement of the same at the total value of Rs.12.22 crore. Firm B and C had offered similar type of items to SECL[4] in June 2006 at a price which was Rs.3.57 crore less. Hence price fall clause within Coal India Limited subsidiaries was applicable.

Delayed action by the Company to finalise the contract led to placing of order at an additional cost of Rs.3.50 crore[5].

In response, the Management stated (July 2009) that:

- Firm A had accepted the NIT clauses and never indicated non acceptance of the order before unilateral withdrawal of the offer.
- The Orissa High Court opined that there was no completed contract with Firm A.
- Comparison of the value of the orders placed on alternate sources with that placed on the Firm A and conclusion drawn by audit on extra expenditure was incorrect.

The Ministry while reiterating the views of the Management (July 2009) stated that:

- Firm A had not indicated any deadline to the effect that amendment for coverage of Omnibus Bank Guarantee was to be issued.
- There was a completed contract between the Company and Firm A.

[1] ***Vishwa Industrial Company Private Limited***
[2] ***Bengal Tools Limited***
[3] ***Hindustan Udyog Limited***
[4] ***South Eastern Coalfields Limited***
[5] ***Rs.12.22 crore- Rs.5.15 crore-Rs.3.57 crore***

- The performance Bank Guarantee was required after placement of the order and not necessarily before the finalisation of the order.

Replies of the Management/Ministry are not convincing in view of the following:

- There is a contradiction in the stand of the Ministry and Company regarding existence of a completed contract.
- As per Supreme Court of India there was no valid contract.
- The Company failed to finalise the contract with Firm A in proper time. Since the difference between the Bank Guarantees was only Rs.1.36 lakh, the Company could have taken a quick decision.
- Absence of a valid contract led to non enforcement of the risk purchase clause.

The particular Area produced 6.54 MT of coal during the period from 2004-05 to 2007-08. It could not reap the benefit of cost saving of Rs.404 per tonne of coal since four of the belts were still to be installed (November 2009) after a delay of over 54 months.

Thus, the Company had to bear additional expenditure of Rs.3.50 crore for improper finalisation of purchase orders and also could not reduce the cost of production.

Neyveli Lignite Corporation Limited

3.6.1 Loss of revenue and non-recovery of tax on income

Neyveli Lignite Corporation Limited was deprived of additional revenue of Rs.8.14 crore due to non-adherence to price clause in sale of lignite. It also extended undue benefit to a private party to the extent of Rs.141.46 crore due to non-recovery of taxes on income from supply of lignite.

Neyveli Lignite Corporation Limited (Company) entered (April 1998) into a fuel supply agreement (FSA) with ST-CMS Electric Company Limited (buyer), engaged in generation and supply of electricity to Tamil Nadu State Electricity Board, for supply of lignite up to a maximum of 1.90 million metric tonne *per annum* (MMTPA). The FSA was valid for a period of 30 years from the date of commencement of supply and lignite was to be charged at the pooled price[*] subject to a minimum amount as prescribed in Schedule IX of FSA. Such minimum price worked out to Rs.1050.47 per metric tonne (excluding royalty) from 1 April 2002.

The tariff for supply of electricity to State Electricity Boards (SEBs) consists of two elements viz., fixed and variable charges. Variable charges i.e., pooled price include Fuel Price Adjustment (FPA) charges calculated on monthly basis for the variation in either the gross calorific value of the primary/secondary fuel actually received and burnt or the actual landed cost incurred for procurement of primary/secondary fuel and could be claimed/paid directly by the generating companies from/to the Electricity Boards. The

[*] ***The annual weighted average price of lignite with respect to stages I and II of Mines II, Mine IA and expansion and any other mine that may be developed in future at Neyveli and should be the same as applicable to the Electricity Boards of Southern Indian States.***

Company commenced the lignite supplies to the buyer from Mine I from June 2002. After the Company developed Mine IA with three MMTPA capacity, supplies were made from this mine from September 2003.

Audit scrutiny revealed that:

- The monthly-pooled price of lignite including FPA element up to the year 2007-08 was less than the minimum price of Rs.1050.47 per MT.

- The pooled price ranged between Rs.1086.21 (August 2008) and Rs.1130.36 (December 2008) per MT during the year 2008-09 i.e., more than the minimum price.

- However, the Company claimed its dues for supply of lignite only at Rs.1050.47 per MT instead of at pooled price, leading to short claim of Rs.8.14 crore during April 2008 to March 2009.

- Besides, the Company did not recover tax on income on the quantity of lignite supplied while such recovery was done from the SEBs as reimbursement of expenses. Income Tax recovery, thus, foregone amounted to Rs.141.46 crore during 2005-06 to 2008-09.

The Management stated (June 2009) as below:

- There was no provision in the FSA for claiming FPA as it was a new development after introduction of Electricity Act, 2003 and the Central Electricity Regulatory Commission (CERC) Regulations and hence embedding new concepts to the old agreement was not possible.

- The Management further added that as per the legal opinion obtained, there was no provision in the agreement to prefer the claim for reimbursement of taxes on income and efforts were being made to alter the FSA for claiming both.

The Ministry endorsed (September 2009) views of the Management.

The contentions that there was no provision for claiming FPA is not acceptable as Article 5.4 (a) of FSA provided for recovery for the lignite supplied to the buyer at the pooled price which is similar to the rate recovered from the SEBs of southern States from whom recoveries were made after FPA adjustments. Further, the Company and the buyer were aware of FPA adjustments as FSA (Schedule VII) included March 1992 Gazette notification, which provided for such adjustment in prices. After being pointed out in Audit, the Company has raised the demand for Rs.56.47 crore only for the period 2005-06 to 2007-08.

Thus, non-compliance to FSA provisions in computation of recovery price for lignite at par with the SEBs deprived the Company additional revenue of Rs.8.14 crore and also resulted in extension of undue benefit of Rs.141.46 crore to the buyer.

3.6.2 Irregular investment of surplus funds

Neyveli Lignite Corporation Limited did not comply with the provisions of Companies Act, 1956 in investment of funds.

Section 292 of the Companies Act 1956 (Act) empowers the Board of Directors of a company to invest its funds by means of resolutions passed at Board meetings. This power can be delegated to any committee of Directors, the Managing Director, the Manager or any other Principal Officer subject to the provisions in Section 292 (3) of the Act, which stipulates that such delegation should specify the total amount up to which the funds may be invested and the nature of the investments which may be made by the delegate. Investment policy guidelines of Department of Public Enterprises, Government of India, *inter alia*, stipulated that a Public Sector Undertaking could, depending upon its fund requirements and with Board's approval, invest surplus funds in term deposits up to three years in any scheduled commercial bank having paid up capital of at least Rs.100 crore.

Neyveli Lignite Corporation Limited (Company) delegated (December 2000) powers to the Committee of General Managers (Committee) to recommend investment of funds in commercial bank(s) up to one-year without specifying the total amount up to which the Committee could invest.

Audit scrutiny revealed that:

- Tamil Nadu and Karnataka State Electricity Boards prematurely redeemed power bonds amounting to Rs.1480.87 crore that were actually repayable in half yearly installments up to 2016. The Committee invested (31 March 2007), the unexpected receipt of Rs.1480.87 crore together with other surplus funds of Rs.19.13 crore, Rs.1500 crore in short term deposits (STDs) with four banks for 334 days at interest ranging from 10.77 to 11.68 *per cent* per annum.
- The Company re-invested (February 2008) the principal amount on maturity together with additional surplus funds of Rs.100 crore (total Rs.1600 crore) for one year with three banks at interest rates ranging from 10.12 to 10.78 *per cent* per annum.
- The Company again invested Rs.1600 crore in February 2009 in STDs with various banks at interest rates ranging from 5.5 to 7.5 *per cent* per annum.
- The unexpected receipt of a large sum was kept rolling in short term deposits for three years without carrying out any commercial appreciation of the opportunities available for long term investments.

The Management stated (June 2009) that:

- The Board's direction for regulating the maximum deposit with a particular bank was the ceiling up to which the investment decisions could be taken by the Committee.

- They further added that if the surplus funds were placed for a three year period and the deposits were closed prematurely, in case of need for ongoing/up coming projects, the banks would charge penal interest at one *per cent* resulting in financial loss.

The Ministry endorsed (September 2009) the views of the Management and added that as bank deposits are not classified as investments, contravention of the provisions of Companies Act does not arise.

These contentions were not convincing for the following reasons: -

- The Board was not apprised of unexpected receipt of Rs.1480.87 crore from two electricity boards on account of premature redemption of power bonds for seeking appropriate directions**.**
- The Company projected surplus of more than Rs.2000 crore during the past four annual cash budgets.
- The Company neither had a policy differentiating between short and long term investments nor did it institute adequate internal control mechanism in this regard.
- Further, placement of surplus funds by the Company in fixed deposits with banks constitutes investment for the purposes of Sec. 292 (1) (d) of the Act as per ICAI's[1] opinion.
- The fact that out of STDs of Rs.21,580 crore cumulatively matured between April 2006 and March 2009, Rs.17,397 crore were re-invested for further periods varying up to 365 days proved that these funds were available for long term investment. The Company's decision to invest in STDs deprived it of higher returns.

Thus, non-compliance with the Act regarding prescribing aggregate amount up to which the Committee could invest led to irregular investment of surplus funds in STDs and deprived the Company an opportunity of generating higher revenues by exploring the avenues for long term investment. Thus, the Company lost an opportunity to earn additional revenue of Rs.89.17[2] crore (approximately) on the funds received from the State Electricity Boards alone.

Northern Coalfields Limited

3.7.1 Avoidable payment of service tax

Northern Coalfields Limited issued contracts for removal of overburden and paid service tax of Rs.16.95 crore on the cost of explosives though no service in the form of blasting was provided by the contractor.

[1] ***Expert Advisory Committee of The Institute of Chartered Accountants of India***

[2] ***Interest that could have been earned on Rs.1500 crore had it been invested for three years in March 2007 less actual interest earned on this amount for the same perio.***

As per Section 67 of Service Tax Act as amended in Finance Act 2006, the cost of the service provided by the service provider would be taken into consideration for the purpose of computation of service tax.

Audit noticed (December 2007 and May 2009) that Northern Coalfields Limited (Company) entered into contracts with different parties for hiring of equipment for removal of overburden at different open cast projects during the period from December 2006 to March 2008. The Company took decision in April 2006 that explosives would be supplied by the Company on chargeable basis. But the contract was issued including cost of explosives required for blasting though they would be supplied by the Company free of cost. Blasting job would also be done by the shot firer/blaster of the Company, being a statutory requirement. The Company had to pay service tax of Rs.16.95 crore till March 2009 on cost of explosives recovered from the contractor.

The Management stated (February 2008) that service tax would have to be paid as per Service Tax Act even if explosives be supplied free of cost by the department because of amendment to Section 67 of the Service Tax Act w.e.f., 19 April 2006.

The contention of the Company is not convincing in view of the fact that service tax was payable on the cost of service provided by the service provider only. In this case, the Company arranged explosives for itself and also performed the job of blasting to fulfill the statutory requirement. Hence, no service tax was payable to the contractors as per Rule 2 (p) of CENVAT[♣] Credit Rule 2004.

The Company, ultimately admitting the audit observation, decided (May 2009) to exclude blasting from contract price to avoid payment of service tax on explosives.

Thus, the Company had to bear the burden of service tax of Rs.16.95 crore till March 2009 for erroneous inclusion of cost of explosives in the contract price.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

[♣] ***Central Value Added Tax***

CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

Export Credit Guarantee Corporation of India Limited

4.1.1 Inadequate due diligence during settlement of a claim

Madurai branch of ECGC settled an inadmissible claim for Rs.2.20 crore, ignoring the lapses committed by the bank officials.

Export Credit Guarantee Corporation of India (ECGC) issued a Whole Turnover Packing Credit Guarantee (WTPCG) to a consortium of banks led by Canara Bank in respect of the exporter, Vijaykumar Mills Limited. WTPCG provided cover to the bank in respect of pre-shipment advances given by the bank for manufacture, purchase, processing and packing of goods to be exported out of India. WTPCG covered the risks of insolvency of the exporter and protracted default by the exporter to pay the amounts due to the bank. In the event of the bank lodging a claim, WTPCG required the bank to furnish 'Staff Accountability Certificate' stating that there was no act of omission and commission on the part of any bank official.

Canara Bank preferred a claim for Rs.2.44 crore which was admitted (March 2004) for Rs.2.20 crore subject to receiving 'Staff Accountability Certificate' from the bank before releasing the claim amount. Canara Bank submitted the said certificate in May 2005 but subsequently intimated in November 2005 that major penalty action was taken against two senior officials for their lapses in respect of the account of Vijaykumar Mills Limited.

Thus, it became clear in November 2005 that the bank had not exercised due and reasonable care in granting advances to Vijaykumar Mills Limited. Therefore, the claim of the bank was not admissible. In spite of knowing the developments, ECGC released Rs.2.20 crore later in February and March 2006, contending that the lapses pertained to the post shipment part of the account such as discounting of foreign bills without permission and hence had no bearing on the claim.

Audit observed that the contention of ECGC was not proper as the duty of the bank doesn't end with grant of pre-shipment advances. The bank was required to exercise due and reasonable care and monitor the account till the advances were fully recovered. Further, the bank's investigation against the officials also indicated lapses in respect of packing credit relating to pre-shipment.

Thus, inadequate due diligence by ECGC resulted in irregular settlement of claim for Rs.2.20 crore. As per clause 5 of Part II of WTPCG, payment made on inadmissible claim is to be refunded to ECGC within 30 days with interest. The ECGC should claim a refund with interest and ensure proper due diligence in future to safeguard its financial interests.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

MMTC Limited

4.2.1 Loss due to delay in disposal of Zinc

Inordinate delay in disposal of Zinc not lifted by the buyer resulted in an avoidable cash loss of Rs.2.14 crore.

The MMTC Limited (Company) imports non-ferrous metals against the booking made by domestic buyers and sells them to domestic buyers on High Sea Sale basis (HSS) at an agreed trade margin. The Company is required to sign a HSS agreement with the buyer for the agreed quantity of metal.

The Company offered (October and November 2006) to sell 164.413 MTs[1] of 'Primary Special High Grade Zinc' to M/s Shanky Services Company (buyer) and the buyer accepted to buy the entire quantity. The buyer paid Earnest Money Deposit (EMD) of Rs.28 lakh in this regard. Though the Company entered into HSS agreement with the buyer for the sale of 80.235 MT of Zinc from November 2006 shipment, it did not enter into any such agreement for the balance quantity (84.178 MTs). As per agreement:

- The buyer would have to deposit the full value of the goods (excluding EMD) within seven days from the date of intimation from the sellers or two days prior to expected time of arrival of the vessel, whichever is earlier.

- If the buyer fails to pay the full value, other charges and the interest (if any) before arrival of the vessel, the Company has the right to forfeit the EMD of the buyer and clear the goods from the Customs in its own name. In such an eventuality, the Company shall have the right to recover from the buyer all consequential damages.

Audit observed (November 2008) that:

- The Company imported 80.235 MTs of Zinc in November 2006 and 84.178 MTs of Zinc in December 2006 at the rate of US$4,312 (Rs.1,92,100[2]) and US$3,861 (Rs.1,72,008) per MT respectively valuing Rs.2.98 crore.

- The Company requested the buyer to make the full payment of Rs.3.06 crore inclusive of its trading margin. The buyer did not make the payment on due date.

- The Company, however, made the payment to the foreign supplier for imports in December 2006 and January 2007.

- The buyer lifted 19.862 MT of Zinc in January 2007 after remitting Rs.40 lakh.

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[1] ***Metric tonne***

[2] ***Adopting rate per US$ as Rs.44.55***

- The buyer neither paid the balance amount due to the Company nor took delivery of the balance quantity of Zinc viz. 144.551 MTs (164.413 MT – 19.862 MT).

As the buyer did not lift the balance quantity, the Company placed (April 2007) the material in Custom bonded warehouse. The total expenditure incurred by the Company on these imports aggregated to Rs.4.06 crore[1].

Despite the buyer's failure to comply with the provisions of the agreement terms, the Company did not take any timely action to dispose of the unlifted quantity and recover all consequential losses from the buyer. The Company disposed of the balance quantity in February 2009 for Rs.1.24 crore and suffered a loss of Rs.2.14 crore[2] on this import.

The Management stated (September 2009) that:

- It did not dispose of Zinc immediately after the buyer defaulted in payment as the market reports suggested that Zinc prices might reach upto US$4,600 (Rs.2,04,930) per MT due to deficit in supply and that before selling the unlifted quantity to alternate customers, it was necessary to give proper notice to the original customer.

- It had initiated legal action to recover its losses from the defaulting customer.

The Ministry endorsed (October 2009) the above reply of the management.

The replies are not convincing as:

- The Zinc prices which declined to around US$3,000 (Rs.1,33,650) per MT in the first quarter of 2007, improved in the second quarter of 2007 and were ruling between US$4,150 (Rs.1,84,883) per MT (April 2007) and US$3,800 (Rs.1,69,290) per MT (July 2007). Thereafter, it steadily declined and was around US$1,150 (Rs.51,233) per MT in February 2009 when the Company eventually disposed of the balance quantity. The objective of the Company in this case should have been to recover its money quickly rather than speculate on the future price movements.

- The Company's contention about giving proper notice to the original customer is also not acceptable as he never responded to the pleas of the Company to lift the balance quantity and all the communications addressed to him were returned undelivered.

- Further, the Company would not be in a position to recover any amount from the buyer as the detective agency engaged by the Company reported (August 2008) that the whereabouts of the buyer were not known and that no such Company existed.

Thus, inordinate delay in disposal of zinc resulted in an avoidable loss of Rs.2.14 crore.

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[1]Cost Insurance and Freight (CIF)(value -Rs.2.98 crore, custom duty- Rs.0.57 crore, handling, detention charges etc.- Rs.0.46 crore and godown rent- Rs.0.05 crore.

[2] Rs.4.06 crore – Rs.28 lakh (EMD) – Rs.40 lakh (amount paid by the buyer) – Rs.1.24 crore (sales realisation).

STCL Limited

4.3.1 Failure to devise internal controls in entering and executing contracts with Business Associates

The Company entered into new line of business activity of third country exports of metal scrap in 2004-05 without finalising operational guidelines and without protecting its financial interests against defaults by overseas buyers. System deficiencies in entering into contracts with the Business Associates and failure to devise internal controls led to loss of Rs.1167.48 crore.

Spices Trading Corporation Limited, a wholly owned subsidiary of State Trading Corporation of India Limited, whose core business was trading in whole range of spices, amended (July 2004) the objects clause in the Memorandum of Association to include trading in iron ore and other metal scrap including third country exports[1] and renamed as STCL Limited (Company). The metal scrap trade increased from Rs.4.10 crore (0.94 *per cent)* of the turnover of the Company in 2004-05 to Rs.1414.86[2] crore (65.19 *per cent)* in 2008-09.

Third country export of metal scrap by the Company is done through an arrangement for purchase and sale of metal scrap on back to back contract with overseas sellers and buyers identified by the Company's Business Associates (BA)[3] from 2005-06. The Company establishes Letters of credits (LCs) in favour of overseas seller for a period ranging from 90 to 120 days and upon receipt of remittances from overseas buyers, the original shipping documents are released to BA by endorsing the same to overseas buyers for taking delivery of goods. The Company acted as a facilitator for third country exports.

Audit noticed that there were system deficiencies and major irregularities in third country export activity as discussed hereunder:

System Deficiencies:

- While the Company established LC on the foreign sellers for the purchase of metal scrap, it accepted the offer of getting sales proceeds through **'swift payment'** from the overseas buyers without insisting for back-to-back LC. Reasons/compulsions for accepting such payment terms which were not in the financial interests of the Company were not on record. The Company's action of exposing itself for Rs.2525 crore (2008-09) for a meager margin of 1.26 *per cent* (Rs.32.13 crore) without insisting for LC from buyers was fraught with the risk of default, which finally resulted in devolvement of 134 LCs during the period September 2008 to January 2009 valuing Rs.1320 crore[4] due to non remittances by overseas buyers.

- Clause C- 9 of contracts of sale provided for pre-shipment inspection by SGS (inspecting agency) or any certification agency approved by Directorate General of Foreign Trade (DGFT) of India, who will conduct the pre-shipment inspection

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[1] *In third country exports goods are shipped from one foreign country to another without entering India*
[2] *excluding devolved LCs of Rs.1208.48 crore*
[3] *Future Metals Private Limited, Bangalore and Future Exim (India) Private Limited, Bangalore*
[4] *including interest of Rs.152.84 crore up to November 2009*

about weight and quality at load port at seller's expense and at discharge port at the expense of the buyer. As the inspection agencies were appointed by the overseas sellers, there was no control on the inspection agencies by the Company. The sellers loaded iron scrap as against nickel/copper scrap mentioned in the contracts and in 146 pre-inspection certificates did not indicate the contents clearly. Failure of the Company in insisting on the clear indication of the contents amounted to deliberately ignoring the most important control on the quality/nature of the material transacted. As a result, the sellers succeeded in getting the payment of Rs.1208 crore.

Other major irregularities:

1. Entering into the new business without due diligence

- The Company neither conducted any market survey/SWOT[1] analysis before getting into new line of business nor framed guidelines/procedures for selection of BA and for trading in metal scrap (domestic/third country).

- Based on the proposal (28 March 2005) of Future Metals Private Limited (FMPL) to be BA, the contract for sale with BA was entered into by the Company[2] on the same day without even waiting for the approval of Managing Director (MD). Further, the approval was given (May 2005) without verification of the credentials of FMPL, which was incorporated only in July 2004. Similar was the inclusion (April 2007) of Future Exim (India) Private Limited (FEIPL), a group company of FMPL, as another BA.

- The contract with overseas seller[3] was entered on 25 March 2005 even before its incorporation (April 2005) and even before the receipt of business proposal from the FMPL on 28 March 2005.

2. Disregard to the Board's directions

- Even though the Company amended (July 2004) the 'Object' clause in the Memorandum of Association for trading in iron ore and other metal scrap, the modalities of operation in respect of iron ore only was deliberated in the Board while approving the Revised Market Plan for the year 2004-05. Board's direction (July 2004), while approving the Company's proposal, to seek guidance from the holding company i.e., The State Trading Corporation of India Limited (STC) on the issue was also ignored. Board discussed the modalities of operation for third country export of other metal scrap only during July 2007.

- Board while approving (July 2007) Business Plan for 2007-08 directed to conduct periodical risk analysis of buyers and sellers on continuous basis by utilizing the services of risk analysts viz., M/s. Dun & Bradstreet (D&B). The Company obtained (July 2008 to August 2009) D&B reports on overseas buyers/sellers and

[1] ***Strength, Weakness, Opportunities and Threat***
[2] ***Signed by the Chief Marketing Manager of the Company***
[3] ***M/s Al-Mustaqbal FZC., UAE***

FMPL only after the commencement of the metal scrap trade which indicated inter-alia that the line of business of some of the overseas buyers/sellers was undetermined and that the overseas sellers/buyers were associates of BA.

3. Violation of Delegation of Powers

- The MD of the Company did not have any delegated power when the proposals (March 2005) from the BA for metal scrap trading was received and every transaction was required to be approved by the Chairman or the Board.

- By virtue of its increased turnover (major share from scrap trade activities) the Company was elevated from Grade "D" to Grade "C" in June 2005 but still the MD did not have the delegated power on business transactions. It was only in January 2006, the Board approved the delegation of power (DOP) according to which for non-fund based back-to-back contracts, the Managing Committee comprising of MD can enter into contracts upto Rs.20 crore only beyond which the proposals were to be approved by one Director/Chairman/Board. DOP was silent about the maximum extent to which the MD can commit the Company by entering into such contracts within his delegated powers. It was observed that each of the contracts entered into with the BA was kept under Rs.20 crore limit of the MD. The value of contract entered in a single day varied from Rs.30.71 crore to Rs.279.29 crore, which indicated misuse of delegation of powers. In 115 cases, LCs valued Rs.927.07 crore were opened without prior approval of MD. However, MD ratified these subsequently**.**

- As per the DOP of Chairman, STC, the total amount of financial assistance at any time to BA should not exceed Rs.75 crore. The actual credit availed on this count was Rs.1770.13 crore (out of Rs.1785 crore approved by Board) in respect of the present BA transactions. The fixation of maximum exposure on BA was overlooked while framing the DOP in January 2006.

4. Meek acceptance of terms prescribed by the BA

- As the consignments never touched the Indian shores in the third country contracts, constant and close monitoring was necessary. However, in the absence of any internal procedure in place, the Company relied on the BA. The exposure gradually increased from a mere Rs.4.10 crore in the first year (2004-05) of their association to a whopping Rs.2525 crore (approximately) in the fourth year (2008-09). The failures of the Company to read the nexus between the BA and sellers/buyers were fully exploited by the BA. It was evident from various contracts entered into with the BA, that the said sellers[1] and buyers[2] were the associates of the BA.

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[1] ***Asia Metal & Commodities Pte Ltd. Singapore, Al-Mustaqbal Metal FZC, Dubai, American Metal Management Inc., New Jersy, USA***

[2] ***SinoAsia Pacific (H.K) Ltd., Hong Kong, Haoweilai Jinsu Limited, Hong Kong, Haoweilai Jinsu (H.K.) Limited***

- Even though the BA had proposed for mutually agreed service charges to the Company, no record of discussions as to the basis/adequacy of the margin of 1.75 *per cent* of the carriage and freight value of the contract accepted by the Company was available.

- Back-to-back contracts with the BA stipulated an amount equivalent to 10 *per cent* (which was later amended to 5 *per cent* during 2007-08) as security deposit (SD)/margin money (MM) to be provided in the form of DD/cheques before opening of the LC**.** On review of contracts, it was observed in 56 cases, the SD was mentioned as 10 percent but the Company actually collected only 5 percent and in 12 cases the percentage of SD to be collected was not indicated in the contract. Justification for reduction in percentage of MM /SD was not on record. Considering the fact that an amount of Rs.70.73 crore were adjusted against the principal and dues by banks, the collection of 10 *per cent* MM would have reduced the Company's financial burden by Rs.70.73 crore.

- The Company reduced its margin of profit from 1.50 *per cent* to 1.266 *per cent* in November 2006 at the request of BA on the grounds of increase in volume of business transacted. However, such reduction was not specifically brought to the notice of the Board nor was any justification for reduction duly recorded. This has resulted in reduction in profit by Rs.7.77 crore during 2006-07 to 2008-09.

- In 10 cases, the goods were sold on forward sale basis based on the letter from BA to the Overseas Buyers without entering into formal agreement.

5. Pre-shipment inspection

- Clause C-7 (K) of agreement with Overseas Seller provided certificate to be issued by BA at load port for having inspected the goods for quality and quantity, which were stuffed in containers as certified by inspection agency. It was observed that the date of Bill of Lading (57 cases) and invoices (12 cases) which were referred by BA in inspection certificates were after the date of inspection certificate of BA.

- After devolvement of LCs, when the Company sought to take possession of the consignments in Busan (South Korea)/Vietnam, it was found (March 2009) on opening the five containers that the contents were iron scrap and not nickel or copper scrap. Subsequently, under court directions 583 containers were opened (June /November 2009) and contents of all were also found to be scrap iron. The value of all the consignments (885 containers) was estimated to fetch approximately US$4.58 million (Rs.22 crore) as against US$249.57 million (Rs.1208 crore) paid by the Company. As per the Busan court direction, all the 588 containers were auctioned and the realisation towards this was adjusted towards the pending port dues and storage costs. The details of disposal of balance 297 containers were not known.

- The contracts provided for deputing Company's team (as a buyer) for inspection while loading the commodity. The Company officials visited abroad during

September/October 2008 after the Company noticed the first default of payment by overseas buyer.

- In 108 cases, the pre-inspection certificates were prior to the date of entering into contract with BA and overseas sellers and in 54 cases, the bills of lading were prior to the date of entering into contract, indicating that the contracts were a mere formality.

6. Failure to encash in time cheques given as guarantee

- Clause 5.1.2 of back-to-back contract provided for furnishing corporate/personal guarantee together with post dated cheques (dated two days prior to the due dates of LC) for the contract value, to safeguard against breach of contractual obligations by the BA. The reasons for accepting cheques as security without verifying the financial credentials of the BA were not on record. The Company collected undated cheques in all 134 cases from BA. The first default started by 17 September 2008 and by end of September 2008, it was Rs.175 crore. The Company not only failed to encash the cheques furnished by BA but also opened 24 more LCs for Rs.152.95 crore between 18 September and 3 October 2008. The Company presented all the cheques (valuing Rs.1056.28 crore) only in January 2009 which were dishonoured as the BA had issued 'stop payment' instruction to bankers.

7. Failure to learn from past back-to-back deals

- Even as the Company aligned with present BAs (FMPL & FEPL) during 2005-06 for metal scrap trade, the Company found (March/April 2005) in the LMS (Light Melting Steel Scrap) trade, with another BA, that the consignment supposed to be of LMS actually turned out to be sand and used tyres. The consignment was certified by the nominated inspection agency from whom the Company finally recovered its loss.

- Similarly, in another case relating to back-to-back contract for trading in pulses with RSR best commodities (P) Limited, Chennai, the Company relied on the certificates of the associates' nominated inspecting agency on the quality and quantity of pulses who certified that the inspection done at the Central Warehousing Corporation (CWC), Chennai. The Company did not verify the stocks at CWC Chennai despite having a branch office in Chennai and made the payment of Rs.5.25 crore to the associate/seller. As the associate failed to sell the pulses under the contract, the Company decided (March 2008) to sell stock at CWC Chennai, on 'as is where is basis'. However, no publicity was given for the sale. There was no transparency in the sale which was finally effected to a third party- FEPL for Rs.5.25 crore and the payment was received from FEPL. Later it was found that there was no stock and the CWC receipts were fabricated and in this case too the associate (RSR) and the seller were group firms only. However, there was no financial loss to the Company as FEPL agreed to settle the issue with the RSR. Thus, despite being aware of the consequences in relying on the certificates of the associate's nominated inspection agency, the Company failed to insist on appointing its own agency or satisfy itself about the contents of the material loaded in its dealing with the BA for the metal scrap trade.

The Management in its reply stated that:

- The Annual Marketing/ Business Plan with modus operandi against import/export transactions are put up to the Board and approved, the business is carried out in line with the Board's approval.

- No banker insisted for LC either orally or in writing from the overseas buyers for 2nd leg of operation and if BA had been in the position to provide Bank Guarantee/LC from overseas buyers, they would have not utilised the services of the Company.

- The Company's officials visited (September 2008) Dubai and were present while stuffing the copper scrap to containers; on verification, the stuffed containers were never shipped.

- Consequent to global recession and the assurance given by BA in getting remittances from overseas buyers the Company opened LCs valued at Rs.43.72 crore during 1st week of October 2008.

- All the shipping documents including inspection report are in order where as the contents of the containers were Iron and Steel Scrap instead of Nickel & Copper Scrap. The present liability is only on account of the fraud committed by BA along with overseas sellers/buyers.

Reply of the Management is not convincing as:

- The approved Annual Marketing/ Business Plan for 2004-05 and 2005-06 did not specifically mention the modalities of operation of metal scrap trade.

- The Company should have insisted for back to back LC or an unconditional bank guarantee from a well-rated scheduled bank to safeguard its financial interest. If that was not possible from BA, the Company should have resisted from doing this business.

- The Company's officials visited abroad to oversee the stuffing of material into containers only after the Company noticed the first default of payment by the overseas buyers.

- Although the Company noticed the first default of remittances from the overseas buyers on 17 September 2008 it still continued to open 24 LCs valuing Rs.152.95 crore between 18 September 2008 to 3 October 2008 which could been have avoided.

- The pre-inspection certificate issued by inspection agency indicated the description of commodity as 'Metal Scrap' instead of 'Nickel/Copper Scrap' as per the contracts. Moreover, the Company filed case against the Inspection Agency for issuance of fabricated pre-inspection certificates.

Had financial prudence in the business of third country exports of metal scrap been followed by protecting its financial interest against non-remittance by overseas buyers/BA, the fraud could have been avoided. The State Bank of India has also issued notice on behalf of the Consortium of Bank for recovery of dues from the Company.

Conclusion

The Company entered into new line of business activity in 2004-05 by entering into third country exports of metal scrap without finalising operational guidelines and without protecting its financial interest against defaults by overseas buyers. System deficiencies in entering into contracts with the Business Associates and failure to devise internal controls resulted in non-payment by overseas buyers and supply of iron scrap as against nickle/copper scrap, led to loss of Rs.1167.48 crore[♣].

The matter was reported to the Ministry in November 2009; their reply was awaited (November 2009).

♣ ***Rs.1208.48 crore total LC devolved Less margin Money adjusted Rs.41 crore***

CHAPTER V: MINISTRY OF COMMUNICATIONS AND INFORMATION TECHNOLOGY

Bharat Sanchar Nigam Limited

5.1.1 Loss due to payment of advance income tax in excess of requirement

Bharat Sanchar Nigam Limited paid advance tax of Rs.529 crore in excess of actual requirement for the financial year 2006-07. This resulted in loss of interest of Rs.23.21 crore on the excess paid advance tax.

The Income Tax (IT) Act provides that a company has to estimate its income and pay advance tax every year in four installments of 15, 45, 75 and 100 *per cent* by June, September, December and March, respectively. The IT Department charges penalty on short payment of advance tax and allows simple interest at six *per cent* on refunds, from April of the next financial year. Accordingly, it is the responsibility of the BSNL to estimate the income tax correctly to avoid penalty for short payment of advance tax or to avoid loss of interest on excess paid advance tax as BSNL invests its surplus funds in short term bank deposits at the rate of more than six *per cent*.

Audit scrutiny of the IT returns of BSNL for the financial years 2004-05 to 2006-07 revealed that the advance tax paid by the BSNL was far in excess of the actual income tax due during the years as below:

(Rs. in crore)

Financial year	Advance tax deposited including TDS (Rs.)	Income tax due (Rs.)	Excess paid Income tax (Rs.)	Percentage of Income tax paid in excess
2004-05	1173	796	377	47
2005-06	1142	774	368	48
2006-07	1524	995♣	529	53

Audit noticed that the estimation of advance tax for financial year 2006-07 was done at the beginning of the year and paid in four equal installments instead of the proportion specified in the IT Act. There was excess payment of advance income tax of Rs.529 crore for the financial year 2006-07, the refund for which was obtained from IT department in August 2008.

On this being pointed out by Audit, the Management stated (March 2009) that:

- There was no precise mechanism available to estimate taxable income and tax liability thereon with 100 *per cent* accuracy.

♣ ***Inclusive of fringe benefit tax***

- Further, BSNL, since its inception had yearly growth ranging from 4 to 24 *per cent* and based on this, advance tax of Rs.1,200 crore was estimated for the financial year 2006-07. However, the turnover became negative, which was never expected.

- It was also stated that BSNL committed to pay Rs.1400 crore as advance tax to get exemption from tax deduction at source.

The reply of the Management is not convincing as:

- BSNL had been paying excess advance tax of more than 47 *per cent* consecutively for three years, which indicates lack of proper planning and inadequate financial controls.

- Further, the payment of income tax in four installments was permitted by IT Act to enable the Companies to assess and adjust the advance tax in accordance with the income and expenditure of the current quarter so that it matches the Income tax due for the financial year, which BSNL could not do and as stated there being no system in place to do so.

Thus, failure to estimate the advance tax payments with reasonable accuracy resulted in its excess payment and the Company lost interest of Rs.23.21 crore[1] thereon ***(Annexure-I)***.

The Management needs to ensure better management of its advance tax payments so that advance tax does not exceed reasonable limits.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

5.1.2 Continuation of telecom facilities despite non-payment of dues

Secondary Switching Areas in four telecom circles of Bharat Sanchar Nigam Limited failed to discontinue telecom services to subscribers for non-payment of dues resulting in non-recovery of Rs.16.09 crore.

Rules in Bharat Sanchar Nigam Limited (BSNL) provide that:

- Telephone bills are payable by subscribers within 15 days from the dates of issue of their bills, failing which their telephones are liable to be disconnected by the 35^{th} day from the date of issue of bills.

- In case of STD/PCO[2]s, bills are payable within four working days from the date of receipt of bills, failing which the connections are liable to be disconnected. The Corporate office of BSNL reiterated this provision in February and October 2003.

[1] ***Calculated after allowing a variation of 10 per cent in advance tax payments against the actual Corporate tax paid***

[2] ***Subscriber Trunk Dialing Public Call Office***

- In respect of leased circuits, BSNL issued (November 2002) clarification to all heads of the circles for recovery of advance annual rental. Accordingly billing and recovery of advance annual rentals of leased circuits should be made prior to expiry of the period for which rental had already been recovered.

Audit scrutiny of records of 15 Secondary Switching Areas (SSAs) under Bihar, Madhya Pradesh, Maharashtra and Rajasthan telecom circles revealed that despite non-payment of bills within the due dates, subscribers were allowed to continue with the telecom services without disconnection. This resulted in non-recovery of revenue of Rs.16.09 crore from subscribers during the period from March 2000 to March 2009, as shown in the ***Annexure-II.***

On this being pointed out by Audit SSA Munger stated (November 2008) that matter would be taken up with higher authorities, Deputy General Manager (Telephone Revenue) Patna stated (November 2008) that out of Rs.2.85 crore, an amount of Rs.0.58 crore had been realised/recovered/adjusted. SSAs Indore, Amravati, Nagpur and Ahmednagar stated (between October and December 2008) that efforts were being taken to realise the outstanding amounts. SSA Khamgaon stated (October 2008) that the matter had been taken up with field Sub Divisional Engineers for attending to the closed Advice Notes for finalisation of the outstanding cases. SSA Satara stated (September 2008) that delay in disconnection was due to migration from Trichur package to Dotsoft. Pune SSA attributed (October 2008) the delays in disconnection to slow and overloaded system and delay at post offices. Deputy General Manager (F&A II) of the office of the Chief General Manager Telecom, Jaipur while accepting the facts and figures, stated (June 2009) that an amount of Rs.0.27 crore had been realised/adjusted.

Therefore, despite clear directions from Corporate Office, SSAs failed to disconnect telecom services on account of non-payment of dues of Rs.16.09 crore for the period from March 2000 to March 2009. Out of this an amount of Rs.0.86 crore had been realised/ adjusted by the BSNL.

The recovery particulars of the balance amount of Rs.15.23 crore were awaited as of June 2009.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

5.1.3 Loss of subsidy

Failure of 17 Secondary Switching Areas under six telecom circles of Bharat Sanchar Nigam Limited to maintain fault free/functional Rural Household Direct Exchange Lines and Village Public Telephones led to loss of subsidy of Rs.15.42 crore for the period from October 2003 to September 2008.

Universal Service Obligation as envisaged in the New Telecom Policy 1999 (NTP-99) aimed at providing basic telephone services for all, including people in rural and remote areas, at reasonable and affordable prices. Financial support in the form of subsidy was to be granted from the Universal Service Obligation Fund (USOF) by the Administrator, USOF, to eligible Universal Service Providers (USPs) for specified services, which include provision/maintenance of Rural Household Direct Exchange Lines (RDELs), operation and maintenance of Village Public Telephones (VPTs) and replacement of Multi Access Radio Relay (MARR) technology VPTs in specific areas as determined by the Central Government from time to time. Bharat Sanchar Nigam Limited (BSNL), as an USP, had entered into agreements with the Department of Telecommunications (DoT), for subsidy support from USOF for rural telephony.

The subsidy from USOF for rural telephone services includes:

- A front loaded component which is to be paid in the quarter that the service for which it is being given installed/made functional, and
- An equated annual subsidy component, to be paid quarterly against claims raised Short Distance Charging Area wise by the USP within 30 days of the end of the quarter, up to a maximum period of validity of the relevant Agreement. However, if any of the RDELs/ VPTs remained faulty or non-functional for more than seven days in a quarter, the equated annual subsidy payable would be reduced proportionately for the number of days they remained faulty or non-functional. In case the fault persisted for 45 days or more in a quarter, no subsidy for the entire quarter will be paid for the VPT/RDEL.
- Further, in the case of RDELs, in the event of non-achievement of roll out obligations/targets as mentioned in the agreements, the Administrator would be entitled to recover liquidated damages for the shortfall, up to a maximum of 10 *per cent* of the front loaded subsidy payable for those RDELs.

Test check of records of 17 Secondary Switching Areas (SSAs) under Chhattisgarh, Madhya Pradesh, Uttaranchal, Uttar Pradesh (East), Uttar Pradesh (West) and Tamil Nadu telecom circles of BSNL revealed that failure to maintain fault free/functional RDELs/ VPTs led to loss of subsidy of Rs.15.42 crore for the period from October 2003 to September 2008 as shown in the ***Annexure-III***.

On being pointed out by Audit, General Manager Telecom District (GMTD) Hoshangabad stated that huge loss of Universal Service Obligations (USO) subsidy was due to zero meter reading. GMTD Gwalior stated that there were 1148 VPTs, out of which 667 were faulty. GMTD Bhopal stated the meter reading could not be increased as the villagers did not make any outgoing calls and only received the calls. The GMTD Raipur stated that efforts were being made for restoration of VPTs. All the SSAs of Uttar Pradesh (East), Uttar Pradesh (West) and Uttaranchal telecom circles stated that most of the VPTs remained non-functional and steps would be taken to maintain fault free/functional VPTs. Office of the CGMT[♣], Tamil Nadu telecom circle stated that an amount of Rs.46.67 lakh had been disallowed by the USOF on account of billing details not available/disconnection due to non-payment/zero meter reading.

Thus failure of the circles/SSAs to provide/maintain functional and fault free rural telephony led to loss of subsidy of Rs.15.42 crore for the period from October 2003 to September 2008.

[♣] ***Chief General Manager, Telephones***

The matter was reported to the Ministry in August 2009; their reply was awaited (November 2009).

5.1.4 Non-realisation of compensation charges for damages to optical fibre cable and under ground cable by outside agencies

Failure of nine Secondary Switching Areas under five telecom circles of Bharat Sanchar Nigam Limited to realise compensation charges for damages to cables by outside agencies resulted in non-realisation of Rs.8.12 crore.

Rules provide that when property of Bharat Sanchar Nigam Limited (BSNL) is damaged by an outside agency, compensation should be claimed from the concerned party. Further, the compensation should be levied, taking into account the actual cash outlay and value of stores utilised in repairing the damage, along with overheads.

- The Corporate office of the BSNL liberalised the calculation procedures in January 2003 for damage charges by adopting the uniform rate of Rs.1.50 lakh for each cut of optical fibre cable on each occasion irrespective of the location.
- In October 2003, Company issued instructions to claim copper cable damage charges at liberalised rates from various external agencies per damage per occasion irrespective of the location of the copper cable.
- The order of October 2003 was amended in October 2004 for cases of multi cuts requiring replacement of a section of copper cable in excess of five meters, additional cable cost in slab of 10 meters length to be recovered over and above the cable damage.

Test check of records of nine Secondary Switching Area (SSA) under Orissa, Punjab, Uttar Pradesh (East), Uttar Pradesh (West) and Uttaranchal telecom circles between January 2007 and December 2008 revealed that on various occasions, while undertaking digging works, private service providers damaged the cables during 2004-05 to 2007-08 at various locations. There was non-realisation of compensation charges of Rs.8.12 crore for the period 2004-05 to 2007-08 as shown in the ***Annexure-IV***. The demand notes were issued by these SSAs to private service providers indicating the length /occasions of cables damaged by these private operators but the same had not been realised.

On being pointed out by Audit, General Manager (Operation) of the office of Chief General Manager Telephones (CGMT), Orissa telecom circle stated that though the possibility of realisation appeared remote, the demand for Rs.1.13 crore had been raised. Office of the CGMT, Punjab telecom circle stated that efforts were being made to realise the damage charges from various agencies. The Dehradun SSA stated that the letter had already been issued to circle office for recovery from concerned service providers. The Meerut SSA stated the cases of non-realisation had been sent to Deputy General Manager (Internal Audit) for realisation from the bills of interconnection usage charges. Bijnor SSA stated that efforts were being made to recover the damage charges as early as possible. Basti SSA stated that the letter was sent to General Manager - Network Coordination (NC) to club the damage charges with 'interconnection usage charges' for recovery of the amount. Partapgarh SSA stated that the matter would be pursued with General Manager (NC) Lucknow for taking suitable action. Raebareli SSA stated that the cases had already been referred to General Manager (NC) Uttar Pradesh (East) telecom circle. The Unnao SSA stated that the demand note had already been issued for Rs.64.18 lakh.

Thus failure of the SSAs in active pursuit of the settlement of the compensation claims raised against the external agencies and private service operators as well as absence of joint mechanism constituting the SSAs and private agencies led to non-recovery of Rs.8.12 crore.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

5.1.5 Excess procurement of cables

Karnataka telecom circle failed to correctly assess the requirement of 50 pair cable, resulting in excess procurement leading to non utilisation of cable and idle investment of Rs.7.14 crore.

BSNL Corporate office issued procurement guidelines in June 2001 stressing that while procuring, existing inventory and inventory in the pipeline should also be accounted for. It was further emphasised that circles should take into account their consumption pattern while assessing their requirements and utmost care should be taken to avoid piling up of inventory.

Audit scrutiny (August 2008 to May 2009) of the records of five Secondary Switching Areas[•] (SSAs) of Karnataka Telecom Circle revealed that they had procured 50 pair cable during 2007-09 without proper assessment of their requirement based on past consumption pattern. The average aggregate utilisation of 50 pair cables in these SSAs was 187 kms (***Annexure-V***) per year during 2004-07. Audit noticed that these SSAs, in spite of having adequate stock of 350 kms of cable in April 2007, procured 594 kms of cables at a cost of Rs.7.14 crore (***Annexure-VI***) during 2007-09. However, they could utilise only 146 kms, which could have been met from the opening stock of April 2007 itself. Further, with the shift from landline telephony to mobile communication over the years, the requirement of cables would decline. The SSAs also failed to consider this factor and the average utilisation of 50 pair cable also came down from 187 kms per year during the years 2004-07 to 73 kms. per year during 2007-09. Thus, failure to consider the past consumption pattern and future requirements of 50 pair cables resulted in idle investment of Rs.7.14 crore on procurement of 594 kms of cables.

On this being pointed out by Audit, Bijapur and Raichur SSAs stated that the cables could not be utilised as cable laying tender could not be finalised and assured that in future existing stores will be taken into consideration while projecting cable requirement. Mangalore SSA accepted the facts and stated that the excess cable was proposed to be diverted to other units. Replies from Mysore and Mercara SSAs were awaited.

Thus, failure of these five SSAs of Karnataka telecom circle to assess requirement based on previous consumption pattern, future requirements and monitor the procurement of cables, resulted in idle investment of Rs.7.14 crore on unutilised cables, besides piling up of inventory of around 800 kms. of 50 pair cable as of March 2009.

[•] ***Mysore, Mangalore, Raichur, Mercera, Bijapur***

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

5.1.6 Non-recovery of interest on delayed remittances to the Collection Account

Failure to realise penal interest for non-transferring of collection account balance to circle collection account on daily basis by the banks resulted in non-recovery of penal interest of Rs.3.34 crore in Andhra Pradesh and Rajasthan telecom circles of Bharat Sanchar Nigam Limited

The Corporate Office of Bharat Sanchar Nigam Limited (Company) entered (September 2004, February 2006, September 2006, December 2006 and May 2007) into agreements with various banks at each level, i.e., Corporate, Circle and Secondary Switching Area (SSA) and issued guidelines to the circles for opening of accounts with these banks at circle and SSA levels.

Clauses 2.3, 2.6 and 11 of the agreements provided that:

- The revenue collections deposited into the collection account of the SSA should be transferred to the circle collection account and from there to Corporate collection account on the same day, rounded to thousands of rupees.
- Failure to do so would attract penal interest at prevailing bank rate plus four *per cent* per annum.

Test check of records of the circle telecom accounts of Andhra Pradesh telecom circle (October 2007) and Ajmer, Banswara, Bundi, Jaisalmer, Jhunjhunu and Kota SSAs under Rajasthan telecom circle (December 2007 to May 2008) revealed that these units failed to recover penal interest for non-transfer of funds to circle accounts. This resulted in non-realisation of penal interest of Rs.3.34 crore for the period from 2003-04 to 2007-08, as shown in the ***Annexure-VII***.

On being pointed out by Audit, a recovery of Rs.8.32 lakh was made by the CGMT, Rajasthan circle. Chief Accounts Officer (Banking) of the office of the Chief General Manager, Andhra Pradesh telecom circle stated that the SSA/unit had been instructed to prefer interest claims on the banks and settlement thereof was under active pursuit by the circle office.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

Mahanagar Telephone Nigam Limited

5.2.1 Irregularities in global tender

MTNL failed to implement the policy formulated by Prime Minister's office for promoting indigenous manufacturing of telecom equipment. Further, the Company extended undue benefit of Rs.16.18 crore to the vendor by waiving penalty in contravention of terms and conditions of the tender.

Consequent upon a decision taken by the Prime Minister's office, the Department of Telecommunications in July 2005 forwarded a proposal to Mahanagar Telephone Nigam Limited (MTNL) to implement the policy regarding promoting manufacture of telecom equipment in India and the Board of Directors of MTNL took a decision to implement the same. Based on this policy, MTNL issued a global tender in March 2006 for supply and installation of Broadband Access Network equipment.

The terms and conditions of the tender provided that:

- The bidder should either be an Original Equipment Manufacturer (OEM) of IP-DSLAM• or its Indian subsidiary if the OEM is a foreign company or be a registered Indian company having Transfer of Technology (TOT) agreement with OEM of IP-DSLAM.

- The vendor should supply IP-DSLAM equipment having indigenous component of manufacturing in India with minimum value addition of 30 *per cent*.

- If the vendor fails to supply the equipment after manufacturing in India as per the terms and conditions of the tender, then the Performance Bank Guarantee (PBG) and Manufacturing Bank Guarantee (MBG) shall be en-cashed/forfeited by MTNL.

In April 2007, the tender was finalised and purchase orders were placed on Sterlite Optical Technologies Limited (SOTL) for supply and installation of 500K ports broadband access network equipment on turnkey basis at a cost of Rs.169.89 crore.

Audit scrutiny of the records of MTNL Corporate office revealed that the vendor requested MTNL in May 2008 to relax the tender condition regarding indigenous manufacturing on the ground that, new tenders released by MTNL/BSNL were not having the clause relating to indigenous manufacturing. The MTNL Board accepted the request of SOTL in July 2008 and permitted it to supply the imported equipment.

This resulted in:

- Non implementation of the Government policy regarding promoting manufacture of telecom equipment in India even after three years.

- Failure to get competitive price for the equipment as the terms and conditions of the Global tender were altered after finalising the tender and awarding the work to SOTL.

- Undue benefit of Rs.16.18 crore to SOTL as the encashment/forfeiture of PBG and MBG was waived off although SOTL failed to adhere to the condition of indigenous manufacturing.

On this being pointed out by Audit, the Management stated (May 2009) that relaxation of indigenous manufacturing was necessitated in view of the urgent requirement of

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• ***Internet Protocol-Digital subscriber line access multiplexer***

Broadband equipment for earning of revenue. MTNL was operating in a highly competitive environment and since competitors were installing equipment the Company could not delay the same. Moreover the objective of MTNL was to earn revenue from operations and not through penalties.

The reply is not convincing due to the following:

- As there was no urgency for deployment of the equipment. The broadband connections were 2.05 lakh, 2.58 lakh, 1.35 lakh and 1.25 lakh in 2005-06, 2006-07, 2007-08 and 2008-09 respectively. It declined by 1.23 lakh connections during 2007-08 and in spite of having this spare capacity, MTNL decided in July 2008 to waive the indigenous clause and procure the broadband equipment on urgent basis.

- MTNL Board had already considered these hurdles and decided to have flexibility to obtain equipment from other sources, should there be problems/delays in receiving equipment from indigenous manufacturers.

- Further, penalties are for ensuring compliance to tender conditions and safeguarding the business interests of the MTNL. Waiver of PBG and MBG would encourage the firms to seek relaxation in other tenders which would be detrimental to MTNL in the long run.

Thus, sanctity of the tender was lost due to change in the terms and conditions after its finalisation, besides undue benefit of Rs.16.18 crore to the vendor. Further, the objective of meeting Government policy of promoting manufacture of telecom equipment in India was lost.

MTNL needs to ensure that the terms and conditions of the tender are not altered once the tender is finalised.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

5.2.2 Non-issue of ILD licence by DoT

MTNL failed to submit an undertaking to DoT for clearing the outstanding dues towards frequency use and spectrum charges, resulting in non issue of ILD licence by DoT. This resulted in blocking of Rs.25 crore paid by the MTNL for obtaining the licence and consequent loss of interest of Rs.2.75 crore.

International Long Distance (ILD) Licence is issued by the Department of Telecommunications (DoT) to establish, operate and maintain ILD network and to provide ILD service. The ILD service is basically a network carriage service, providing international connectivity to the network operated by foreign carriers.

Mahanagar Telephone Nigam Limited (MTNL) applied (May 2002) to DoT for licence to operate ILD services, and DoT issued (March 2004) a Letter of Intent (LoI) to MTNL to sign the agreement by June 2004, for obtaining ILD licence. The terms and conditions of

LoI provided for deposit of one time entry fee of Rs.25 crore, performance bank guarantee (PBG) of Rs.25 crore and no dues certificate from the Wireless Planning and Coordination (WPC) wing of DoT. The Company paid the entry fee and submitted the PBG by June 2004.

Audit scrutiny (April 2008) of the records of MTNL Corporate office revealed that it could not get the no dues certificate in respect of pending dues from WPC and hence did not get the ILD licence. Audit noticed that the WPC had requested the MTNL in August 2004 to deposit pending dues of Rs.4.58 crore, which MTNL disputed. As the matter could not be resolved, in October 2004 DoT asked for an undertaking from MTNL that outstanding amounts decided by DoT would be paid, but the MTNL did not comply. Consequently, MTNL could not get the 'no objection certificate'. Further, it was found that the Management, in a significant change of its earlier stand, gave an undertaking to WPC in February 2008, that dues as worked out by WPC would be paid and was able to get the licence from DoT in June 2008.

Thus, failure of the Management to take a decision for four years to provide an undertaking to clear the WPC dues, led to denial of ILD licence. This resulted in delay in commencing of ILD services by four years and loss of revenue. Further Rs.25 crore paid by the Company as entry fee remained blocked for two years resulting in loss of interest of Rs.2.75 crore calculated @ 5.50 *per cent* per annum.

On this being pointed out by Audit, the Management stated (July 2008) that DoT had initially raised an *ad-hoc* demand of Rs.100 crore in 2002, which was revised to Rs.50 crore and in the absence of any details, MTNL could not make the payment. Hence no blanket undertaking could be given by the MTNL.

The reply is not convincing:

- As adjustment of claims raised by DoT was a continuous process and submission of an undertaking by MTNL to clear its dues was reasonable.
- Further, MTNL decided (February 2008) after four years to give the same undertaking that it had not furnished earlier, and was able to get the ILD licence by June 2008.

Thus, failure of the Management to complete the formalities and obtain the ILD licence resulted in blocking of entry fee and consequent loss of interest of Rs.2.75 crore.

MTNL needs to ensure that all the mandatory licences from Government agencies are obtained within a reasonable time so that its operations are not hampered.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

CHAPTER VI: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

6.1.1 Irregular payment of bonus

Incentive bonus was released to millers/State Agencies for paddy procured by them during Kharif Marketing Season 2007-08 without ensuring the actual payment of bonus to the farmers which resulted in irregular reimbursement of bonus amounting to Rs.786.59 crore to millers/State agencies.

Government of India (GOI) vide letter dated 15 October 2007 announced an incentive bonus of Rs.50 per quintal for paddy procured by the millers during Kharif Marketing Season (KMS) 2007-08. Further, on 21 November 2007, additional incentive bonus at the rate of Rs.50 per quintal was announced by the GOI. In the orders, it was specified that the bonus would be paid to the millers/State Agencies by the Food Corporation of India (FCI) only on production of proof of payment to the farmers. Since the procurement season[1] was near over by then, the FCI issued instructions (November 2007) to all its Zonal Offices to ensure payment of bonus to the farmers whose paddy had already been procured by FCI/State Agencies.

In Punjab Region 76.95 lakh MT rice was procured under levy and custom milled rice category during KMS 2007-08. The bonus for the paddy purchased was released to millers/State Agencies without ensuring proof of actual payment of bonus to the farmers, on the basis of blanket certificates provided by the millers/State Agencies and District Food Supply Controller (DFSC) for levy rice. An amount of Rs.786.59 crore was reimbursed as bonus to the millers/State Agencies in Punjab Region[2] without any documentary evidence for the same. Though the Zonal Office, North Zone, FCI instructed (September 2008) the concerned Area Managers to collect the actual proof of payment of bonus to the farmers from the concerned millers/State Agencies within 15 days or recover the bonus already reimbursed, no action was taken by the District Offices. The release of incentive bonus to millers/State Agencies without ensuring the actual payment of bonus to the farmers, resulted in irregular reimbursement of bonus amounting to Rs.786.59 crore for paddy procured during KMS 2007-08.

The Management stated (November 2009) that:

- The instructions were circulated to ensure release of payment as per directions of the GOI.

[1] Procurement season – September to November
[2] Excluding Jalandhar District where the bonus paid was recovered from State Agencies due to non-production of evidence of payment of bonus to farmers.

- In compliance with the instructions most payments were made on the basis of a certificate from the millers/State Agencies stating that the bonus had been passed on to the farmers.

The reply of the Management is not acceptable. Despite GOI instructions, the payments were released to the millers/State Agencies on the basis of blanket certificate submitted by them without any document evidencing actual payment of bonus to the farmers.

Thus, non-compliance with the instructions issued by GOI regarding release of incentive bonus resulted in irregular reimbursement of bonus amounting to Rs.786.59 crore for paddy procured during KMS 2007-08 to millers/State Agencies.

It is recommended that to avoid such irregular reimbursement, the incentives/bonus should be announced sufficiently before the start of the procurement season.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

6.1.2 Accounting of rice storage loss in excess

Storage loss in rice observed during the period 2003-04 to 2007-08 in Punjab region as compared to Haryana region was excess by 3.23 lakh MT valuing Rs.450.65 crore.

Food Corporation of India (FCI) procures rice through levy and custom milling for the Central pool. During storage rice loses weight due to loss of moisture. The Government of India (GOI) issued instructions (April 1980) that FCI should prescribe by 30 September 1980, the limits of storage loss on account of loss in weight and deterioration of stock. Further, the Storage and Contract Manual* of FCI lays down that the Area Manager should fix the norms of storage shortages reasonable for each depot according to the local conditions.

Emphasizing the need to control such losses FCI stated (June 2002) that the norms for losses cannot be fixed and reiterated that the existing system of investigations into each and every case of loss be continued considering various factors responsible for losses including the dereliction of duties by officials. The write off of the losses were to continue without prejudice to the pending/contemplated disciplinary action for fixing responsibility and recovery of the losses.

No norms for storage loss have been fixed by FCI till date and the storage loss was being accounted for on actual basis as the difference between the receipt weight and the issue weight. A review of storage loss account in Punjab region had revealed that the average storage loss in rice during the period 2003-04 to 2007-08 was 1.02 *per cent* whereas in Haryana region where climatic condition was similar the average storage loss in rice was observed as 0.33 *per cent* only. When compared to Haryana region excess storage losses

** Para 13.3.2*

of 3.23 lakh MT valuing Rs.450.65 crore was observed during the period 2003-04 to 2007-08 in Punjab region. No reasons were available on record for this wide variation in percentage of storage loss in the two neighbouring regions. Misappropriation of stocks cannot be ruled out in high percentage of storage loss.

The Management stated (September 2009) that:

- Investigations were conducted and disciplinary action initiated wherever abnormal storage losses were noticed.
- In Punjab there was more procurement, longer storage period and different storage conditions, its comparison with Haryana region cannot be made.
- Due to different environmental and storage conditions in the Regions/different parts of the country the storage norms could not be fixed.

The Ministry endorsed (September 2009) the reply of the Management.

The reply is not acceptable. Higher procurement does not imply higher percentage of storage loss. Further, though the climatic conditions in both the regions were similar, there was difference of nearly 200 *per cent* in the storage loss in these regions.

It is recommended that the norms for storage shortages reasonable for each depot according to the local conditions be fixed.

6.1.3 Unjustified payment of incentive to departmental labour

Not considering 'Mandal' as handling labour for payment of incentive resulted in unjustified payment of incentive amounting to Rs.16.59 crore to departmental labour during the five years period 2004-05 to 2008-09 in Haryana region.

In the Food Corporation of India (FCI), the handling operations[1] at various depots and railheads are carried out by labour grouped into gangs. A standard gang has one Sardar, one Mandal and 12 handling labour. As per the description of duties prescribed by the FCI, the Sardar has to function as the leader of handling labour and supervise various operations for speedy working of the gang. The Mandal is responsible for weighment of bags of food grains and when there is no weighment, he has to work as a part of the gang and perform duties of a labour.

In Haryana region, departmental labour are in existence in 22 depots. The departmental labour are full time employees of the FCI who are paid incentive as per piece rate incentive scheme, in addition to their wages, in case the work rendered by labour on a given day exceeds the general norms of output[2] fixed by the FCI. The incentive scheme also provides that the Sardar and the Mandal should be paid incentive equal to the

[1] ***Loading, unloading, stacking, de-stacking etc.***
[2] ***Handling 105 bags weighing less than 66 kg per day***

average incentive earnings of the handling labour of the gang provided the Sardar and the Mandal attend to the work on the given day.

With the introduction of weighment of bags through weighbridges in the depots, there was no need of the Mandal during weighment and as per description of duties prescribed by the FCI, he had to work as a handling labour. However, it was observed in Audit that, while working out the incentive payment for work done in excess of the general norms of output, the Mandal was not treated as a part of handling labour. This resulted in unjustified payment of incentive for 105 bags per gang per day which could have been handled without payment of incentive, if the Mandal was treated as a part of handling labour. Further, incentive earnings to the Sardar and the Mandal were calculated without including Mandal as handling labour which led to excess contribution of the FCI towards their incentive earnings due to unjustified apportionment of total incentive earnings of a gang amongst the handling labourers only instead of apportioning them amongst handling labour and the Mandal. This resulted in unjustified payment of incentive of Rs.16.59 crore to the departmental labour during the five years period 2004-05 to 2008-09 in Haryana region.

The Management stated (July 2009) that:

- The incentive scheme for departmental labour was framed based on an arbitration award of 1970 which provided for incentive wages to the Sardar and the Mandal based on the output of an individual worker in the gang.

- In the arbitration award, it was not mentioned that when the Mandal performs the duty of handling labour in the absence of manual weighment, he had to give output as handling labour.

- The duties of the Mandal were identical to that of the Sardar in the absence of manual weighment and he worked as a stacker and assisted handling labour in placing bags on their back.

The reply is not acceptable as:

- The incentive scheme based on arbitration award provided that the per *capita* output was to be determined by dividing the total number of bags handled by the gang by the number of handling labour present in the gang.

- The Mandal had to perform as handling labour in the absence of manual weighment, the total earning should have been apportioned inclusive of the Mandal.

- The work relating to stacking and placing bags on the back *etc.*, was a part of overall duties of handling labour and not distinctly assigned to the Mandal anywhere.

Thus, by not considering the Mandal for apportionment of total incentives of a gang amongst the handling labour, unjustified payment of incentive of Rs.16.59 crore was made to departmental labour during five years period 2004-05 to 2008-09 in Haryana region.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

6.1.4 Non-recovery of revised sugar price

Non-recovery of amount due to downward revision of levy sugar price from the sugar mills resulted in undue benefit to the sugar mills to the extent of Rs.6.89 crore and loss of interest to the tune of Rs.2.33 crore.

The Government of India (GOI) follows a policy of partial control and dual pricing for sugar. Under this policy, a certain percentage of sugar produced by sugar mills is requisitioned by the GOI as compulsory levy at a price fixed by GOI in every sugar season[1] for distribution in the Public Distribution System. The non-levy sugar is allowed to be sold as per the quantity released by the GOI under the free sale release mechanism.

The GOI decided (April 2000) to revise the price of levy sugar for the production year 1999-00. The price was revised to Rs.1091.51 per quintal from Rs.1460.58 per quintal (a reduction of Rs.369.07 per quintal). A writ petition against the order was filed by some sugar millers in the Orissa High Court. On the basis of interim orders (June 2000) of the Orissa High Court, the mills charged pre-revised price of Rs.1460.58 per quintal for the levy sugar for sugar seasons 1999-00 to 2001-02.

Subsequently, the Orissa High Court dismissed (January 2001) the writ petition of the sugar mills. The sugar mills thus, became liable to refund the excess amount charged with interest thereon. The GOI while intimating the decision (April 2002) to the mills, directed to remit the excess realisation through demand draft and also advised FCI, Regional Office Orissa (RO Orissa) to submit details of such excess payments made. However, the modalities of recovery to be effected from the sugar mills, in case of non remittance by them, were not specified. Since the GOI and the FCI had no direct contact with the sugar mills, it was imperative that the recoveries be effected by the FCI from the Orissa State Civil Supply Corporation Limited (OSCSC)[2] which prefers differential sugar bills on FCI and makes payments to the sugar millers. The OSCSC in turn recovers the amount from the sugar mills.

RO Orissa calculated Rs.6.89 crore as recoverable from the sugar mills. It recovered the excess payment of Rs.6.31 crore till May 2005 from pending monthly claims of OSCSC and instructed OSCSC to realize the excess payment from concerned sugar mills on account of downward revision of levy sugar price.

In the meantime OSCSC represented (February 2004) to the GOI that they had no scope to recover the amount from sugar mills as the levy sugar was supplied by the mills against advance payment. The GOI intimated (June 2004) the FCI that the recoveries from the OSCSC were not justified. The recoveries were to be made either by the

[1] Means production year - October to September every year.
[2] A State Government Agency

Department[1] or by the FCI from the concerned sugar mills. Consequently, the FCI Headquarters directed (June 2005) RO Orissa to refund the amount recovered to OSCSC under intimation to the GOI with the request to recover the amount directly from the sugar mills. RO Orissa refunded the amount recovered to OSCSC.

The observation of the GOI that the recoveries from OSCSC were not justified was not prudent as neither the GOI nor the FCI had direct contact with the sugar mills to enforce recovery of excess payment. Instead the action of FCI to recover the excess payment from OSCSC should have been ratified. The amount still stands unrecovered from the sugar mills. This has resulted in undue benefit of Rs.6.89 crore to the sugar mills and loss of interest to the tune of Rs.2.33 crore up to December 2008 on the amount not recovered.

The Ministry stated (September 2009) that:

- No orders were issued by them to refund the amount recovered from OSCSC.
- No such amount was received by the GOI.

The reply is not acceptable as the amount recovered from OSCSC was refunded only after recovery was declared as unjustified by the GOI. As such, excess amount paid could not be recovered from the sugar mills and in the absence of any direct contact of the FCI or the GOI with the mills the chances of recovery of excess payment are remote.

Thus, by not recovering excess amount paid to sugar mills, undue benefit of Rs.6.89 crore was passed to sugar mills along with loss of interest of Rs.2.33 crore.

6.1.5 Irregular release of security deposits

Security deposit was released to tenderers without ensuring fulfillment of the terms and conditions of tender resulting in undue favour of Rs.7.01 crore to tenderers.

Food Corporation of India (FCI), Regional Office Punjab invited three tenders during the period June to October 2008 for sale of damaged rice fit for animal feed only belonging to crop year 2004-05 lying in five district offices[2]. The quantity offered in three tenders was 160,433.506 MT[3].

The terms and conditions of the tenders stipulate that:

- "Clause E (ii) - the earnest money of successful tenderers would be retained as security deposit for due performance of the contract and it would be adjusted against all losses incurred by the FCI, in case the tenderers violate the terms of the contract.
- Clause E (iii) (a) and E (iii) (c) - If the tenderer fails or neglects to perform any of his obligations under the contract, it shall be lawful for the FCI to adjust either in

[1] ***Department of Food & Public Distribution, Ministry of Consumer Affairs, Food & Public Distribution, Government of India***
[2] ***Bhatinda, Faridkot, Ferozepur, Moga and Sangrur***
[3] ***50930.915 MT, 66920.824 MT and 42581.767 MT***

whole or in its absolute discretion, the security deposit furnished by the tenderer or any part thereof.

- Clause L - Particular category of rice should be used only for the purpose indicated and no attempt should be made for adulteration or misuse of the stocks."

Accordingly, the damaged rice so lifted was to be processed for animal feed in the buyer's premises/factory/plant and the buyer was to furnish full account of utilisation/processing of the stock to the FCI. Failure on the part of the buyer to render full and satisfactory accounts of utilisation of the damaged stock would have constituted a breach of contract making the buyer liable to pay to the FCI all the damages to be decided by the Area Manager.

It was observed in Audit that against the quantities covered in the three tenders, the parties lifted 66,980.782 MT[♦] by January 2009. The earnest money retained as security deposits against this quantity, amounting to Rs.7.01 crore, was released by the FCI on the basis of actual lifting by parties without ensuring its ultimate utilisation whereas the terms of the tender clearly provided that rice lifted by the parties should have been used only for processing for animal feed and complete account/record of the same should have been verified by the FCI before releasing the security deposit of the parties to ensure that the stock was not used for adulteration or recycled as Custom Milled Rice or levy rice. Thus, the release of security deposits of Rs.7.01 crore to tenderers was irregular and against the terms and conditions of the tenders.

The Management stated (September 2009) that:

- No adverse report had been received regarding misuse of stock by any party.
- All Area Managers were being asked to explain the reasons for release of security deposits without obtaining/verifying full account of utilisation and processing of damaged rice.

The reply is not convincing as:

After being pointed out by Audit, few firms were blacklisted by the FCI and barred from purchase of damaged foodgrain in future due to their failure in performance of the requirements of tender terms and conditions.

Thus, release of security deposit amounting to Rs.7.01 crore to tenderers without ensuring the utilisation of damaged stock was irregular and against the terms and conditions of the tenders.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

[♦] ***29067.990 MT, 24389.409 MT and 13523.383 MT.***

6.1.6 Avoidable payment of siding charges

Failure to get the railway sidings notified as independent stations resulted in avoidable payment of siding charges of Rs.5.19 crore to railways during the period 2003-04 to 2008-09.

According to Indian Railways Commercial Manual (Vol.–II)*, "If a siding has been provided with complete facilities for direct reception and dispatch of trains and such trains do not require to be dealt with at the station from which the siding takes off/serving station, but run through to or from the siding with railway locomotive or originate from or terminate in the peripheral yard provided by the siding holder, the railway administration will have the powers for levying freight charges on through distance basis up to the buffer end of the siding or the farthest point of the exchange yard instead of levying freight charges up to the serving station and siding charges for haulage of wagons over the siding." In order to avail the facility, it was required to get the siding notified as an independent station by the concerned Zonal Railways.

The Food Corporation of India (FCI) had own railway sidings at Food Storage Depot (FSD), Kalyani and Orient Jute Mill (OJM), Budge Budge under District Office, Non Port Depot (West Bengal Region). As per 'Northern Railways Through Rates Circular No. 7 of 2002', both these sidings could handle train load traffic. Consignment of foodgrains could be booked directly to both the sidings on through basis up to the ultimate point, i.e., buffer point at siding and payment of siding charges could be avoided by getting the sidings notified as independent stations.

It was observed in Audit that:

- The FCI had not initiated any action to get these sidings notified as independent station.
- Paid siding charges for the rakes booked up to the buffer point at these sidings and even up to serving railway station of these sidings.

An amount of Rs.5.19 crore was paid as siding charges during the period from 2003-04 to 2008-09 (up to September 2008) for the rakes booked up to the buffer point or serving railway station of these sidings. The payment of siding charges could have been avoided had the FCI initiated action and got the sidings notified as independent stations and ensured that the rakes were booked by the consignor up to the buffer point of the FCI sidings.

The Management in reply contended (December 2009):

- FSD Kalyani and OJM Budge Budge had not been notified for charging freight on through distance basis.
- The FCI was logically and legally bound to make payment of siding charges and shunting charges as per existing rules.

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* ***Para 2517***

The reply is not acceptable. Though these sidings could handle train load traffic as per Railways, the FCI had not initiated any action to get the sidings notified as independent stations to avoid payment of siding charges.

Thus, failure of the FCI to get the sidings notified as independent stations resulted in avoidable payment of Rs.5.19 crore as siding charges during the period from 2003-04 to 2008-09 (up to September 2008) to Railways.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

CHAPTER VII: MINISTRY OF DEFENCE

BEML Limited

7.1.1 Extra expenditure due to amending the currency of payment

The Company incurred an extra expenditure of Rs.26.62 crore by agreeing to the request of the supplier for amending the currency of payment which was in contravention of the terms of the purchase orders.

For meeting the supply order (March 2006) of the Ministry of Defence (MOD) for Tatra vehicles, BEML Limited (Company) placed (July 2006) a purchase order (PO) on Tatra Sipox (UK) Limited (supplier), for supply of semi knocked down (SKDs) and complete knocked down (CKDs) sets for different models of Tatra vehicles at a total order value of US$97.70 million. As per terms and conditions of the PO, prices were firm on FOB[1] European port basis in US Dollar and payable by irrevocable letter of credit (LC) on sight basis.

The supplier requested (December 2006) the Company to change the currency of payment from US Dollar to Euro for all shipments to be made from January 2007. This was stated to be based on the insistence of Czech National Bank as the Czech Republic being a member of European Union was expected to be in Euro Zone whereby all non-US business had to be converted to Euro.

The Company's request (December 2006) to adopt the cross currency rate prevailing on the date(s) of establishment of LC was not accepted by the supplier. Subsequently, a meeting was held on 6 February 2007 to settle the issue in which the proposal of the supplier for a fixed cross currency rate of US$1.2936=1 Euro[2], instead of cross currency rate as on the date(s) of payment was accepted by the Company. Accordingly, the value of supplies pending against the POs as of December 2006 for US$78.49 million was amended to Euro 60.68 million.

Audit observed that:

- Explicit reasons/compulsions on the Company to accept the fixed conversion rate of US Dollar to Euro on a fixed date i.e., 16 January 2007 were not on record.

- The Company had also not covered itself against exchange rate fluctuations by taking a forward cover. This had resulted in extra cash outflow of Rs.26.62 crore due to increase in rates of Euro in comparison to US Dollar in respect of pending supplies received between March 2007 and October 2008. In the absence of provision in the contract with the MOD for reimbursement of the rise in the

[1] ***Free on Board***
[2] ***Rate as on 16 January 2007***

landed cost due to exchange rate fluctuation, the Company had to bear the entire extra expenditure.

The Management stated (May 2009) that:

- Despite highlighting the fact that the Company would lose substantially if supplier's terms were accepted, the supplier was adamant and the Company had no other option but to accept the fixed cross currency conversion rate of US Dollar to Euro insisted by the supplier as the firm was the proprietary supplier of Tatra vehicles.
- Had there been a stalemate with the supplier, the Company would not have met the committed deliveries to MOD.

However, Audit observes that:

- The contention of the supplier about the insistence by the Czech National Bank do not corroborate with the fact as the supplier had accepted payment in US Dollar for orders placed after January 2007 and supplies made after February 2007. Further, there was no evidence in the files made available to audit to indicate that the veracity of the Czech National Bank's insistence for change in currency for pending supplies as at the end of December 2006 was ensured by the Management.
- Even if the Company was to accept the change in the currency of payment, it should have taken the safeguard to protect its financial interest by taking hedging/forward cover.

Thus, the Company had to incur an extra expenditure of Rs.26.62 crore by agreeing to the request of the supplier for changing the currency of payment in PO from US Dollar to Euro and manner of its conversion in contravention of the 'firm' terms of the PO.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

Bharat Electronics Limited

7.2.1 Loss in supply of solar home lighting system

Failure to consider the in-house capacity constraints and current outsourcing cost of modules resulted in a loss of Rs.5.19 crore.

Bharat Electronics Limited (Company) quoted (August 2005) against a tender of Tripura Renewable Energy Development Authority (TREDA) for supply, installation, commissioning and comprehensive maintenance of 18000 Solar Home Lighting Systems (SHLS). Quotation was based on in-house cost valid for 120 days (November 2005). TREDA placed orders for 9000 SHLS in October 2005 and 9000 SHLS in February 2007.

The Company manufactures solar cells from silicon wafers and manufactures modules[♣]. As its in-house module manufacturing capacity was inadequate to meet the above order,

[♣] ***Module-a critical component in a solar lighting system*** the Company had to outsource this work by issuing cells to module manufacturers. The Company failed to consider actual cost of outsourcing of modules while quoting. The first 9000 SHLS were executed by outsourcing 8100 modules and the Company completed supplies by September 2007 with a meager margin (Rs.10 lakh only).

Audit noticed that:-

- The Company accepted the second order of 9000 SHLS (February 2007) beyond validity period (November 2005) without considering the increased cost of outsourcing.
- Considering its capacity constraint, the Company should not have accepted an un-remunerative order beyond its validity. The Company lost Rs.5.19 crore[1] in execution of the second order.

The Ministry replied that the project was viable based on inputs available at the time of quotation and the Company issued low cost cells from the available stock for module manufacture.

The Ministry's reply is not correct since Management confirmed (October 2009) that the low cost cells were diverted to other orders as the second order of TREDA was delayed.

Thus, failure to consider the in-house capacity constraints and outsourcing cost of modules for second order, while it was not bound to accept the lapsed commitment, resulted in a loss of Rs.5.19 crore.

Hindustan Aeronautics Limited

7.3.1 Locking up of funds due to acceptance of an unviable delivery schedule

Acceptance of an unviable delivery schedule coupled with delay in submission of change order resulted in locking up of Rs.95.26 crore and consequent loss of interest of Rs.16.62 crore.

Hindustan Aeronautics Limited (Company) received (August 2000) a letter of intent from Ministry of Defence (MOD) for manufacture and supply of 20 Single Seater Jaguar Aircraft to the Jaguar NavWASS[2] upgrade standard. The Company submitted (December 2002) a quotation of Rs.113.82 crore per aircraft based on the Standard of Preparation (SOP)[3]. During price negotiation[4] IAF[5] insisted for revised SOP covering additional items/modifications and price was finalised at Rs.109.50 crore per aircraft and the contract was signed in March 2006. As per contract, all 20 aircraft were to be supplied by 2007-08 (six aircraft were to be delivered in 2005-06). Delay in supply attracted levy of liquidated damages subject to a maximum of five per *cent*.

[1] ***Outsourced at Rs.15,564 per module as against the quoted rate of Rs.9,425 per module arrived at based on in-house manufacturing cost of 2005-06, i.e. Rs.8,841 per module.***
[2] ***Navigation and Weapon Aiming Sub System***
[3] ***Standard of preparation represents various items/components fitted in the aircraft***
[4] ***October 2005 to March 2006***
[5] ***Indian Air Force***

Audit noticed that the Company accepted unviable delivery schedule despite being aware at the time of signing of the contract in March 2006 that the revised SOP was yet to be finalised as the delivery was dependent on final SOP terms.

The revised SOP was finalised in March 2007 and the first aircraft was supplied in May 2007 and the supply of all 20 aircraft was completed by October 2009 with delays ranging from 1 to 17 months. Accordingly, MOD recovered Rs.95.26 crore towards LD for delayed supplies.

The Ministry replied (October 2009) that:

- The delivery schedule for 20 strike jaguar contract was agreed to in view of the likely extra time that would have taken for fresh CCS[♦] approval. However, a provision to rework through amendment in the delivery schedule was kept in the contract.
- Consequently, a consolidated change order was made by the Company and is currently under process. This was not moved earlier as insisting on amendment prior to delivery of completed aircraft was not considered a practical proposition.

The reply of the Ministry is not convincing due to the following reasons:

- The apprehension of the Ministry of likely extra time that would have taken for fresh CCS approval is not borne out by facts as the delivery schedule stipulated in the contract finalised in March 2006, was different from what was originally approved by the CCS (December 2002) and was not realistic as supply of aircraft could not be made without finalisation of SOP.
- Further, the decision to submit consolidated change order, based on actual delivery of the aircraft, after completion of the supplies is not in the interest of the Company as the Company had not received any advance against this contract and payments received were only against completion of mile stones which has resulted in locking up of Company's funds in the form of LD recovered by MOD for delay in supplies.

Thus, the acceptance of unviable delivery schedule despite being aware at the time of signing of the contract in March 2006 that the revised SOP was yet to be finalised led to blockage of Rs.95.26 crore as payment of LD with consequent loss of interest of Rs.16.62 crore (October 2009).

7.3.2 Avoidable loss due to non provision of full maintenance expenditure

Failure to include a provision towards full maintenance expenditure of prototype aircraft beyond scheduled FOC in the MOU resulted in avoidable loss of Rs.5.26 crore.

[♦] ***Cabinet Committee on Security***

A tripartite Memorandum of Understanding (MOU) was entered (March 2002) amongst Defence Avionics Research Establishment (DARE)[1], Indian Air Force (IAF) and the Hindustan Aeronautics Limited (Company) for series upgradation of 38 MIG-27M aircraft apart from two prototype aircraft with modern avionics system based on the core avionics computer developed by DARE at a total cost of Rs.204.25 crore to be funded by IAF.

The first phase of the programme was to upgrade two prototype aircraft for which the Company was responsible for aircraft modification and maintenance of two aircraft upto Final Operational Clearance (FOC) which was scheduled in October 2005. The total amount sanctioned (August 2003) for the first phase programme was Rs.20.41 crore (excluding contingency amount of Rs.2.04 crore) which included Rs.74 lakh towards maintenance of two prototype aircraft. FOC was achieved belatedly in December 2008. The Company incurred expenditure of Rs.6.30 crore over and above Rs.74 lakh provided in the MOU towards maintenance of two prototype aircraft till the extended date of FOC.

The Company requested (February 2008) Air Head Quarter's (AHQ) to reimburse the extra expenditure stating that the cost of Rs.74 lakh was only for maintenance support of new equipment integrated during up-gradation and not for full maintenance till FOC. The Company admitted that this aspect was not clearly brought out in the MOU due to drafting mistake. AHQ rejected the claim of the Company stating (April 2008) that the estimated cost for maintenance of aircraft for a period of 19 months was reflected in the worksheet of MOU and the extra expenditure projected beyond planned FOC in the absence of any other justification and provision in the MOU was not admissible.

The Company again requested (May 2008) for reconsideration of their claim, admitting that delay in FOC was not envisaged during price negotiations/MOU and hence the expenditure towards full maintenance support was not provided. The extra expenditure was towards deputation of more number of specialists, material/spares and deployment of manpower towards maintenance of aircraft, snag rectification, modifications etc.

In response, AHQ agreed (August 2008) to reimburse Rs.1.04 crore as the last payment towards extended product support due to delay in FOC on the condition that no further element of expenditure would be considered in future. The subsequent request (November 2008) of the Company was also not considered (April 2009) by the AHQ.

The Management stated (March 2009) that the total cost sanctioned was tentative. The AHQ's contention had neither been accepted nor had the payment of Rs.1.04 crore been accepted. Project is to be seen in totality and profitability cannot be viewed against each element of cost.

The reply is not convincing as the project cost sanctioned was on 'not-to-exceed basis' as per the tripartite MOU and was not tentative. The fact that even reimbursement of Rs.1.04 crore agreed by AHQ, is restricted to the available contingency amount[2] provided

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[1] a part of Defence Research Development Organisation/ Ministry of Defence

[2] Out of Rs.2.04 crore contingency provisions in the contract, Rs.one crore was transferred to DARE in January 2009

in the sanctioned project cost. Elemental cost assumes significance as savings on each element of cost contributes to the overall profitability of the project.

Thus, failure to include a provision towards full maintenance expenditure of prototype aircraft during design and development phase beyond scheduled FOC in the MOU resulted in avoidable loss of Rs.5.26 crore.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

7.3.3 Failure to enter into a formal contract with AHQ for MiG upgrade

Company's failure to enter into a formal contract before accepting the upgrade work of MiG-BiS to MiG-BISON on annual overhaul task with explicit provision for rejections resulted in absorbing extra cost of Rs.3.81 crore.

Hindustan Aeronautics Limited (Company) undertook (2001-02) the series upgradation of 123 MiG BiS to MiG BISON aircraft under annual overhaul/upgrade task and no separate contract was concluded between the Company and Air Headquarters (AHQ). BiS upgrade was a customer project and the kits/material was to be supplied by AHQ for upgradation work.

During upgradation (2002-03 and 2003-04), some spares supplied by AHQ were found unserviceable and were rejected. The Company assessed the additional spare parts required for upgradation of 123 aircraft and requested (February 2005) AHQ for their procurement from M/s. Rosoboronexport, Russia, supplier of materials/spares for the upgradation. AHQ indicated that they would only place a Repair, Maintenance and Supply Order (RMSO) and the Company should purchase the items required. The Company decided to procure the spares considering the delivery schedule, the lead-time required for supply of the spare parts and to follow up with AHQ for issue of RMSO for regularising the procurement.

The Company procured (November 2005) spares valued at Rs.15.58 crore. However, AHQ placed RMSO for Rs.10.78 crore only as AHQ did not agree (June 2006) to place RMSO for spares valued at Rs.3.81 crore arising out of shop floor rejections and for spares valued at Rs.0.99 crore required to be stocked by the Company for future requirement. The Company upgraded 123 aircraft upto 2007-08 and absorbed the expenditure incurred on procurement of spares in 2006-07 and 2007-08.

Audit observed that the Company failed to safeguard its commercial interest as this particular task was being executed by the Company under a different pricing procedure for the first time. Hence, the Company should have taken care to cover the cost of normal shop floor rejections through a formal contract or to get reimbursement of the cost of rejected spares separately. This failure of the Company resulted in absorbing extra cost of Rs.3.81 crore.

The Management/Ministry admitted (November 2009) that pricing was separately done for the upgrade distinct from Overhaul and stated that the FPQ price excluded the material cost. Considering the delivery schedule and consequent penalties, the Company procured the material and absorbed the cost.

Audit, however, observes that:

- As there was no formal contract, the AHQ refused to reimburse the expenditure in the absence of a mandate.
- Ministry of Defence being the administrative ministry should have facilitated reimbursement of extra cost incurred by the Company .

CHAPTER VIII: DEPARTMENT OF FERTILIZERS

National Fertilizers Limited

8.1.1 Irregular payment of Incentives

The Company paid incentives of Rs.4.11 crore to workmen in contravention to the Wage agreement with unions and Government of India directions.

As per the directions of Government of India (GOI) (January 1999), public enterprises were required to enter into a wage settlement with workers for a period of 10 years. Accordingly, National Fertilizers Limited (Company) entered into a 10 year wage agreement through Memorandum of Understanding (MOU) with the recognised Unions of workmen employees (Unions) of the Company in June 2000. The MOU was applicable up to 31 December 2006. In the MOU, the Unions opted for production linked performance incentive as against profit linked scheme. Accordingly, from 2000-01 onwards, the Company started paying performance incentive on the basis of production achieved.

However, the Unions started demanding the share of profit out of the arrears of subsidy received by the Company from the GOI pertaining to the periods prior to introduction of the production linked performance incentive scheme (June 2000). After negotiations, the Company made *adhoc* payment of Rs.2.50 crore[1] as a goodwill gesture in 2005-06. Again, Unions demanded for payment of incentive on profitability instead of production achieved on the contention that there was a wide disparity between the incentives paid to workmen and executives. The Company again made an *adhoc* payment of Rs.1.61 crore[2] as one time settlement in 2007-08.

Audit noticed (August 2008) that the total payment of Rs.4.11 crore made by the Company to its workmen during 2005-06 and 2007-08 was in addition to production linked incentives. This resulted in payment of incentive to Unionised staff on the basis of dual criteria i.e., production achieved as well as *adhoc* payment. Therefore, these payments were in violation of GOI's directions as well as MOU, which was valid for 10 years.

The Management stated (September 2008 and May 2009) the following:

- To maintain sanctity of the MOU, changing the incentive scheme from production base to profit base was not agreed.

[1] ***Rs.7501 per employee***
[2] ***Rs.5100 per employee***

- As the Unions demanded for higher incentive on the basis of changed circumstances approval of the Board of Directors was obtained as was done in the instant case after negotiation with the Unions.

The Ministry stated (August 2009) the following:

- The workmen' Unions requested for payment of incentive on profit basis as there was huge disparity between the incentive given to executives and workmen and *adhoc* payment of incentive was made in order to settle their grievances.

- The Company had saved Rs.15.76 crore by limiting the total incentives to executives to three *per cent* of Profit after tax (PAT) against five *per cent* permitted as per DPE guidelines and payment of Rs.4.11 crore as incentive to workmen was well within this saving.

The replies of the Management and Ministry are not convincing since:

- As per the MOU with workmen, the payment of incentive was to be linked only to the production achieved, but the actual payment was made in addition thereof.

- The DPE guidelines only set the maximum limit for payment of incentive and actual payment should be on the basis of the 'incentive scheme' approved by the Company. Hence the contention of the Management/Ministry regarding net saving to the Company even after payment to workmen does not hold good.

Thus, the Company not only violated the MOU, which was valid as per Government directions for 10 years but also succumbed to the demands of the Unions. This made the entire process of wage negotiations and MOU with the workmen meaningless, ultimately resulting in irregular payment of performance incentive to the tune of Rs.4.11 crore to workmen.

8.1.2 Irregular payment to employees

National Fertilizers Limited made irregular payment of *ex-gratia* amounting to Rs.2.03 crore to its employees in contravention of DPE guidelines.

The Department of Public Enterprises (DPE) issued instructions on 20 November 1997 to all public sector undertakings (PSUs), *inter alia*, directing that the employees of PSUs drawing wage/salary exceeding Rs.3,500 per *mensem* (increased to Rs.10,000 per *mensem* with effect from April 2006) would not be paid bonus, *ex-gratia*, honorarium, reward and special incentive etc., unless the amount was authorised under a duly approved incentive scheme.

The payment of *ex-gratia* by 21 PSUs to their ineligible employees was pointed out earlier in 10 Comptroller and Auditor General of India's Audit Reports (Commercial)[♣] of earlier years from 1994 to 2004. However, no action was taken by these companies. The

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[♣] ***Reports of the Comptroller and Auditor General of India (Commercial) No. 3 of 1994, 1995, 1997 to 2004*** matter was referred (February 2005) to DPE for seeking clarification as to whether such payment of *ex-gratia* was consistent with DPE's instructions. The DPE while clarifying (December 2005) that the payment of *ex-gratia* to the ineligible employees was not allowed as per its instructions of 20 November 1997 intimated that there was no provision for DPE/Administrative Ministry to approve the payment of *ex-gratia*/bonus to the ineligible employees in PSUs. DPE advised (December 2005) the Administrative Ministry to take suitable action to stop irregular payment. However, the PSUs continued to make payments of *ex-gratia*/cash award to their employees irregularly ignoring the instructions issued by DPE in November 1997 and December 2005. The Comptroller and Auditor General of India again highlighted the irregularity involving irregular payment of Rs.880.09 crore in the three Audit Reports[1] in respect of thirteen Companies[2]. The matter was again taken up in October 2008 with the DPE and concerned Administrative Ministries. In response, DPE directed (December 2008) Administrative Ministries to take action to settle the audit para, however, no corrective action was taken by the Administrative Ministries to control the irregular payment except in case of Electronics Corporation of India Limited which stopped such payment and initiated action for recovery of irregular payments.

It was further observed (April 2009) in Audit that during 2006-07 to 2008-09 National Fertilizers Limited paid *ex-gratia* of Rs.2.03 crore[3] as a goodwill gesture to its all employees, which was in violation of the DPE guidelines as the payment of *ex-gratia* was in addition to profit linked incentive paid to executives and production linked incentives paid to non-executives.

In response, the Management (June 2009) and the Ministry (August 2009) stated:-

- *Ex-gratia* payment in 2006-07 was announced by the Minister and all the payments were made with the approval of the Board of Directors and that DPE's guidelines of June 1999 permitted payment of perquisites and allowances up to 50 *per cent* of basic pay, however, it adopted a policy of making payment at the rates from 40 to 50 *per cent* of standard pay.

- The amount of *ex-gratia* paid to employees was considered against this margin available in the quantum of perquisites and allowances.

The reply is not justified as:-

- The payment of *ex-gratia* was in addition to the approved incentive scheme and any *ex-gratia* payment over and above approved incentive scheme was not permitted as per DPE guidelines.

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[1] Report No. 13 of 2006, No 11 of 2007 and No 24 of 2009-10

[2] Indian Airlines Limited, Pawan Hans Helicopters Limited, NTPC Limited, Electronics Corporation of India Limited, Hindustan Petroleum Corporation Limited, Steel Authority of India Limited, Indian Airlines Limited, Garden Reach Shipbuilders and Engineers Limited, MECON Limited, Neelachal Ispat Nigam Limited, Andaman and Nicobar Islands Integrated Development Corporation Limited, National Buildings Constructions Corporation Limited, Engineers India Limited

[3] At the rate of Rs.1000 per employee in 2006-07, Rs.2100 per employee in 2007-08 and Rs.1100 per employee in 2008-09

- The Management's contention that the payment was made out of margin available was not as per the DPE guidelines.

- The Management and Administrative Ministries are not authorised to override the DPE guidelines relating to payment of *ex-gratia*.

Thus, the payment of *ex-gratia* amounting to Rs.2.03 crore as goodwill gesture to employees, in addition of profit/production linked incentive scheme, was irregular as per the guidelines of DPE.

CHAPTER IX: MINISTRY OF FINANCE (DEPARTMENT OF FINANCIAL SERVICES-INSURANCE DIVISION)

National Insurance Company Limited

9.1.1 Loss due to breach of tariff in a petrochemical risk

National Insurance Company Limited committed a breach of tariff in a petrochemical fire risk policy by undercharging premium of Rs.5.33 crore. As a result, the Company paid penalty for an equivalent amount of Rs.5.33 to Tariff Advisory Committee. In addition, it failed to recover Rs.5.93 crore (under re-insurance arrangement) from The New India Assurance Company Limited against the policy towards fire loss due to breach of such tariff.

The Baroda Divisional Office (DO) of National Insurance Company Limited (Company) issued fire policies for the period from 1 August 2004 to 31 July 2005 to Indian Oil Corporation (IOCL), covering material damage risk of IOCL's Vadodara Petroleum Refinery for total premium of Rs.11.46 crore. The Company was the lead insurer sharing 70 *per cent* risk while The Oriental Insurance Company Limited (OICL) and United India Insurance Company Limited (UIICL) were the co- insurers for 12 and 18 *per cent* of the risk respectively.

Re-insurance was statutory under this category as it was a mega risk (sum insured Rs.5,735.92 crore). In re-insurance, a part of the risk along with proportionate premium is distributed to other insurance companies by the insurers. In the instant case, The New India Assurance Company Limited (NIACL) was the reinsurer for 14.41 *per cent* of loss. However the PSU companies have decided that such re-insurance cannot be automatic especially where there may have been underquoting of tariff etc.

Audit noticed (May 2006) that on 29 October 2004, IOCL intimated a fire claim in Fluid Catalytic Cracking (FCC) unit of Vadodara Petroleum Refinery. The claim was approved (June 2007) for Rs.62.88 crore in which the Company's share of loss was Rs.44.01 crore (70 *per cent*) and NIACL's share of loss was Rs.6.34 crore.

The Company committed a breach of tariff by undercharge of premium while underwriting the risk and had to pay (May 2005) a penalty of Rs.5.33 crore equivalent to shortfall in premium to Tariff Advisory Committee (TAC). NIACL did not agree for the re-insurance (March 2005) quoting breach of tariff. The Company also had to absorb NIACL's net share of loss of Rs.5.93 crore in the instant fire claim. Despite the fact of breach of tariff in December 2004, the Company did not prefer any supplementary bill for Rs.5.33 crore to the insured till May 2007 or adjust the same during the payment of claim.

The Company mainly contended (July 2009) the following:

- Representation was made (May 2005) to TAC and the risk was assessed by Loss Prevention Agency (LPA).
- The risk was inspected by a qualified engineer before quoting the rates who opined that TAC and LPA rates were not correct.
- The Company accepted NIACL's refusal to accept statutory cession for this policy for their share of claim.

The contention of the Company is not convincing for the following reasons:

- The Company was fully aware that the rates quoted by them at the time of bidding were not in consonance with TAC rates.
- The Company had also paid a fine for breach of tariff for the same risk in the earlier period (2003-04) as a co-insurer with UIICL.
- The Company itself calculated (January 2005) the difference of Rs.three crore approximately between their rates and that of TAC.

Thus, violation of tariff regulation caused the Company to suffer a total loss of Rs.16.59 crore[1].

The matter was reported to the Ministry in August 2009; their reply was awaited (November 2009).

The New India Assurance Company Limited

9.2.1 Irregular settlement of claim

Acceptance of an inadmissible claim towards car shells damaged during transportation resulted in loss of Rs.1.24 crore.

Divisional Office 121400 under Mumbai Regional Office of The New India Assurance Company Limited (Company) issued a Mega Risk Policy to Tata Motors Limited (TML) for a premium of Rs.11.85 crore for the period 01 April 2006 to 31 March 2007 to cover losses upto Rs.15300 crore[2] by way of Property Damage (PD) and Business Interruption (BI). The policy was co-insured with the United India Insurance Company Limited and Tata AIG General Insurance Company Limited to the extent of 40 *per cent* and 10 *per cent* respectively.

As a result of a fire at the Tata Motors Car Plant Paint Shop, Pune on 21 September 2006, TML lodged (September 2006) a PD claim of Rs.50.56 crore and a BI claim of Rs.136

[1] (Rs.5.33 crore shortfall i.e. under recovery in premium plus Rs.5.33 crore penalty to TAC plus RS.5.93 crore NIACL's net share of loss)

[2] Property Damage for Rs.12300 crore and Business Interruption for Rs.3000 crore

crore with the Company. While the PD claim was settled (September 2009) for Rs.47.05 crore, the BI loss was assessed at Rs.70.07 crore and settled (June 2008)[1].

The BI claim assessed at Rs.70.07 crore included Rs.2.48 crore towards loss on account of 789 passenger car shells damaged during transportation for painting from the TML plant at Pune to Kurla (in Mumbai) and back during the BI period, i.e., from 21 September 2006 to 31 January 2007. The Company should have disallowed this loss as clause 6.5 of the policy[2] expressly provided that insured would not be covered for any loss or damage that ought to have been covered by a *marine*[3] policy. The Company, however, overlooking this fact accepted the loss of Rs.2.48 crore as a legitimate claim within the terms of the Mega Insurance Policy. This resulted in a loss of Rs.1.24 crore[4] to the Company on account of the inadmissible payout to TML.

The Management (May 2009) / Ministry (July 2009) contended the following:

- The surveyors had allowed the cost of the damaged body shells as increased cost of working and not as transit damage. Had the insured taken separate marine policy only for the transportation of body in white, they would have claimed the premium for such policy as increased cost of working. The Company would have ended up reimbursing the premium as part of the BI claim and also the transit losses under the marine policy. The marine policy, if any, would have been availed from Company, as they are the major insurers for Tata Motors and also for the reason that the policy was to be taken arising out of the claim with the Company.

- Shifting of body in white to Kurla Plant from the affected plant, i.e., Paint shop at Pune, was necessary to prevent the escalation of the BI loss. Hence, expenses incurred were considered as loss prevention measures or increased cost of working. By admitting the liability, the Company had not been placed in any additional or avoidable financial burden.

The contention of the Management/Ministry is not convincing for the following reasons:

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[1] ***Interim payments of Rs.10 crore, Rs.20 crore and Rs.10 crore in September 2006, February 2007 and February 2008 with final payment of Rs.30.07 crore in June 2008. In a situation where there is a lead insurer and co-insurer(s) as in this case, the leader shall decide admissibility of claim and the same shall be binding on the coinsurers. The leader shall comply with the law and practice governing ascertainment of extent of loss, liability under the policy and ensure payment of claim strictly as per terms and conditions of the policy.***

[2] ***Clause 6.5 of the policy: "This insurance does not cover any loss or damage to property which, at the time of happening of such loss or damage, is insured by or would, but for the existence of this policy, be insured by any marine policy or policies except in respect of any excess beyond the amount which would have been payable under the marine policy or policies had this insurance not been effected".***

[3] ***Marine insurance "is concerned with the insurance of goods in transit from one place to another by sea, by inland waterways, by rail, road and air…." - extract from Chapter 1 of Marine Insurance (First Edition- Reprinted in 2008) published by the Insurance Institute of India.***

[4] ***NIA's share at 50 per cent of Rs.2.48 crore. The payout was Rs.0.99 crore (40 per cent) by the United India Insurance Company Limited and Rs.0.25 crore (10 per cent) by Tata AIG General Insurance Company Limited, the other two co-insurers.***

- Clause 6.5 of the policy applies to both Section I-PD and Section II- BI it specifically excludes any claim on account of loss or damage, which should normally have been covered by a marine policy.

- If the insured availed such a cover of marine insurance in the normal course, he would be required to pay the premium and as the claim did not fall under BI loss, the Company was under no obligation to reimburse the premium under BI loss.

- As per clause 6.5 of the policy, conditions (which is an exception clause), damages to body shells while in transport to Kurla and to Pune from Kurla for Rs.2.48 crore was not an item of admissible expenditure under increased cost of working. The damages are to be covered by a separate marine policy, which covers the insurance of goods in transit from one place to another.

Thus, the Company incurred an avoidable loss of Rs.1.24 crore on account of payment of an inadmissible claim.

The Oriental Insurance Company Limited

9.3.1 Short collection of premium in violation of IRDA instructions

In violation of Insurance Regulatory and Development Authority's instructions' the Company allowed a discount of 22 *per cent* over and above the maximum permissible limit of 51.25 *per cent* resulting in under recovery of insurance premium by Rs.1.50 crore.

Tariff Advisory Committee (TAC) had prescribed rate of premium to be charged on various classes of business. From January 2007, TAC withdrew the prescribed tariff rates. Consequently rates, terms and conditions and regulations applicable were regulated by The Insurance Regulatory and Development Authority (IRDA). IRDA asked (March 2007) all General Insurers to ensure that the discount over and above erstwhile tariff rate[1], even after introduction of de-tariff regime, should not exceed 51.25 *per cent* for individual rated risks.

A Delhi based branch of the Company issued an Erection All Risk Policy to Gujrat State Electricity Corporation Limited, Alstom (Switzerland) Limited, Alstom Projects India Limited and all affiliated companies (Insured) for the period 8 November 2007 to 7 January 2010 for the sum insured of Rs.1097.75 crore covering Material Damage, Third Party Liability and other add on covers.

Audit observed (September 2008) that the Company allowed an additional discount of 22 *per cent* over and above the maximum limit (51.25 *per cent*) permitted by the IRDA resulting in short collection of premium amounting to Rs.1.50 crore[2].

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[1] ***Tariff rates that were applicable before withdrawal of the same by TAC in January 2007***
[2] ***plus service tax at applicable rates***

In response, the Management accepted (June 2009) the audit observation and asked the Insured to pay the differential amount. However, recovery of the amount was awaited (October 2009). Thus, allowing excess discount in violation of IRDA instructions resulted in under recovery of premium of Rs.1.50 crore.

The matter was reported to the Ministry in June 2009; reply was awaited (November 2009).

United India Insurance Company Limited

9.4.1 Avoidable loss due to incorrect classification of policy

Incorrect classification of a policy as "non-risk booked" led to omission of re-insurance arrangement and consequential loss of Rs.12.75 crore.

Each insurance company cedes a part of the risk underwritten to other insurance companies so that in the event of loss, the loss could be apportioned among them on an agreed basis. General Insurance Corporation of India Limited (GIC) frames such re-insurance policy for each year in consultation with public sector general insurance companies. Accordingly, United India Insurance Company Limited (Company) framed a re-insurance programme for 2007-08 for its field offices with directions to follow it without any deviation. The programme prescribed that all marine policies with sum insured exceeding Rs.five crore should be classified as risk booked (RB) and re-insurance arrangements made accordingly.

Kolkata Divisional office of the Company issued a marine cargo annual policy to ITC Limited (Insured) for the period from 1 April 2007 to 31 March 2008 for Rs.226 crore as sum insured. The policy covered all transit risks with a per bottom limit of Rs.2.50 crore and storage for 12 weeks *whilst in store* after reaching warehouse against the seven days normally allowed. The Company incorrectly classified the policy as Non-Risk Booked (NRB) on the basis of per bottom limit. Hence, no re-insurance arrangement was made.

Audit scrutiny revealed that:

- While the stocks were under 12 weeks storage in a warehouse at Bhiwandi a fire occurred on 15 July 2007 which destroyed the stock of cigarettes, tobacco and personal care products valuing Rs.18.36 crore.
- The Company settled the claim at Rs.16.53 crore as assessed by the surveyor.
- The Company could recover Rs.2.48 crore only from GIC being the 15 *per cent* obligatory cession and absorbed the balance loss of Rs.12.75 crore[♠] due to incorrect classification of policy as NRB.

The Management stated (June 2009) as below:

[♠] ***Total claim Rs.16.53 crore-(obligatory cession to GIC Rs.2.48 crore+retention by the company Rs.0.36 crore +excess retention of premium due to non-cession Rs.0.94 crore) =12.75 crore.***

- The risk was classified as NRB on the basis of per bottom limit of Rs.2.50 crore and that the claims in respect of storage extension under marine policies were very rare.
- While noting the audit observation, they also added that necessary instructions to operating offices were being issued for classifying the policies as RB or NRB.

The Ministry stated (November 2009) that these types of losses during storage on completion of transit were not common and as such reinsurance was arranged on per bottom limit.

The contentions are not acceptable as the underwriting office not only misclassified the policy but also deviated from the ban by the Company on storage extension for stock kept at final destination. Thus, absence of counter checking mechanism for deviations in underwriting and non-compliance with the storage ban led to an avoidable loss of Rs.12.75 crore.

9.4.2 Avoidable loss due to delay in re-insurance arrangement

Non-finalisation of facultative arrangement in time resulted in loss of Rs.1.43 crore to Public Sector General Insurers.

Divisional Office XI, New Delhi of United India Insurance Company Limited (Company) renewed (July 2002) a Group Personal Accident Policy for Indian Railways for the period from 01 August 2002 to 31 July 2003 with lead insurance of 34 *per cent* and co-insurance of 22 *per cent* each with National Insurance Company Limited, The New India Assurance Company Limited and The Oriental Insurance Company Limited. The Company arranged an excess of loss (XL) cover, to protect its net account from claims, through a broker on 07 September 2002 with deductible of Rs.two crore which covered only 20 *per cent* of the sum insured. The Company did not take balance XL cover, as terms and conditions with brokers were not finalised by then.

Rajdhani Express met with an accident on 9 September 2002 in which 117 (approximately) persons were killed and 207 were injured. The aggrieved persons preferred claims with the Railway Claims Tribunal.

Audit scrutiny revealed that:

- The Company had paid Rs.4.74 crore up to March 2009 towards various claims for the said accident.
- If the Company had finalised the XL cover in full on or before 31 July 2002, i.e., prior to commencement of risk, it would have recovered Rs.1.79 crore after adjusting obligatory recovery and deductible under XL cover, but it could recover only Rs.36 lakh for the 20 *per cent* cover taken. Hence, the Company along with co-insurers had to bear balance claims of Rs.1.43 crore.
- Additional claims of Rs.1.80 crore were yet (June 2009) to be decided by the Railway Tribunal.

While accepting loss the Management stated (June 2009) that: In spite of their best efforts, full placements could not be ensured before the accident resulting in avoidable loss of Rs.48.62 lakh to the Company and Rs.94.38 lakh to the other three public sector general insurers.

The Ministry stated (November 2009) that considering the competitive scenario and the rate quoted re-insurance support on proportional basis could not be completed. It further added that the loss was well within the net retention of Rs.two crore.

The replies are not acceptable in view of the following facts:

- The process for renewal had started (May 2002) well before commencement of risk (July 2002).
- The Company had enough time to make arrangements for appropriate re-insurance cover and failure to do so resulted in absorption of loss by Public Sector General Insurers to the extent of Rs.1.43 crore (June 2009).
- The Ministry's contention that the loss was within the retention level of Rs.two crore is not correct as the retention is to be reckoned with reference to the sum insured and not against the claim paid.

Thus, non-finalisation of re-insurance arrangement prior to inception of the risk resulted in loss of Rs.1.43 crore.

9.4.3 Avoidable loss on re-insurance arrangement

Under estimation of third party premium and non adherence to re-insurance programme resulted in avoidable loss of Rs.one crore.

Insurance Companies enter into re-insurance agreement with re-insurers to protect their interest from large claims. The re-insurance programme is drawn up by the Company in the beginning of each year to ensure appropriate re-insurance arrangements when policies are issued. The re-insurance arrangement is normally done in the form of proportional treaty or non-proportional treaty. For proportional treaties the premium is paid in proportion to the share of risk accepted by the re-insurer. In respect of non-proportional treaty like Excess of Loss (XL) cover, a Minimum Deposit Premium (MDP) is paid to the re-insurers based on the estimated gross net premium income (GNPI). At the end of the financial year, the actual premium income is assessed and shortage of MDP, if any, would be paid to the re-insurer. However, excess premium, if any, would not be refunded.

Instances of defective estimation of premium for arriving at MDP and inadequate placement of risk with re-insurers resulting in avoidable loss noticed in the re-insurance department of United India Insurance Company Limited (Company) are discussed below:

A. Excess payment of minimum deposit premium

The re-insurance department of the Company took an XL cover for the year 2007-08 to protect its net account from the claims of motor third party and workmen compensation. The Company budgeted its premium at Rs.1,460 crore, assessed the estimated GNPI at Rs.1,115 crore and paid Rs.8.27 crore as MDP.

Audit observed (June 2009) as under:

- The Company underestimated the outgo of Motor Thirty Party premium consequent upon introduction of Motor TP pool arrangement w.e.f., 1 April 2007.

- Enhancement in the EGNPI over budgeted premium from 71.42 *per cent* in 2006-07 to 76.37 *per cent* in 2007-08 was not justified in view of introduction of Motor TP pool. The estimates for EGNPI for the purpose of MDP should have considered the actual GNPI for previous year and in doing so it would have saved Rs.0.75 crore.

The Ministry stated (November 2009) that: Actual TP pool premium (Rs.404 crore) was higher than the estimate (Rs.149 crore) for GNPI working and added that the actual premium earning would vary sometimes as was in the present case.

The reply is not acceptable as underestimation of Motor TP premium (Rs.149 crore) and adoption of higher estimated NGPI for the year 2007-08 was not justified. This resulted in excess payment of Rs.0.75 crore[1] as MDP.

B. Avoidable loss due to delay in re-insurance arrangement

The Mumbai Division of the Company issued a special contingency policy to NEO Sports Broadcast (P) Limited covering seven 50 over international cricket matches between India and Australia starting from 29 September to 20 October 2007. The sum insured was Rs.16.07 crore for each one-day match.

Audit scrutiny revealed that:

- The Company retained more risk (16.55 *per cent* as against 12.44 *per cent*) contrary to the re-insurance programme for 2007-08.

- The first match was cancelled and the claim was settled for Rs.6.46 crore by absorbing Rs.1.07 crore to their net account. Due to retention of additional risk, the Company had to bear an additional loss of Rs.0.25 crore.[2]

The Management stated (June 2009) that this was due to delay in obtaining General Insurance Corporation's approval for re-insurance support. The Ministry, while endorsing the Management reply stated (November 2009) that considering the business quantum which was likely to emanate from such event, the Company decided to retain a small uncovered portion of the additional net.

The reply is not convincing as retention of more risk was contrary to the approved re-insurance programme and resulted from the Company's failure to make timely arrangement up to the prescribed level immediately on underwriting the policy.

Thus, the under estimation of Motor TP premium and non adherence to re-insurance programme resulted in avoidable loss of Rs.one crore in the above cases.

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[1] ***Rs.1115 crore – Rs.1016 crore = Rs.99 crore X 0.758 per cent=Rs.75 lakh***

[2] ***Additional absorption Rs.26.55 lakh – additional premium retained Rs.82,000***

CHAPTER X: DEPARTMENT OF HEAVY INDUSTRIES

Bharat Heavy Electricals Limited

10.1.1 Loss due to inadequate internal controls and co-ordination

Lack of coordination between the High Pressure Boiler Plant, Trichy and Boiler Auxiliaries Plant, Ranipet led to non-inclusion of Gates & Dampers in the budgetary prices and consequential absorption of unjustified expenditure of Rs.8.17 crore by BHEL.

The Power Plant Performance Improvement Business group (PPIB) of Bharat Heavy Electricals Limited received project enquiry for Renovation and Modernisation (R&M) works relating to refurbishing 5x200 MW OBRA project of Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited (Customer). PPIB instructed (August 2005) the Trichy unit to submit the budgetary price relating to their scope of work. The Trichy unit forwarded (August 2005) a copy of the instruction to the Boiler Auxiliaries Plant (BAP), Ranipet to submit budgetary prices for the scope of work falling under their product mix. Accordingly, BAP, Ranipet submitted (September 2005) a budgetary price for Rs.129.59 crore.

The Trichy unit informed (November 2005) BAP, Ranipet that since the Gates and Dampers had been excluded from the scope of the Trichy unit, BAP, Ranipet must submit revised prices to PPIB after including these items in its scope of work. However, BAP, Ranipet did not include the items Gates and Dampers in their budgetary prices, even at the time of submission of revised budgetary prices to PPIB in February 2006.

Based on the Letter of Intent received (May 2006) from the Customer, PPIB allocated (August 2006) a price of Rs.127.08 crore to BAP Ranipet according to their budgetary price. BAP, Ranipet later sought (July 2007) an additional price allocation of Rs.13.80 crore for Gates and Dampers. However, PPIB rejected (July 2007) the claim stating that the offer had already been compiled based on the budgetary prices received from the Units. As a result BAP, Ranipet, executed the item Gates and Dampers in its scope of work though not included in its budgetary price. The Company had no choice but perforce absorb the expenditure of Rs.8.17 crore towards the cost of Gates and Dampers.

The Ministry while accepting (February 2009) the lapse stated that:

- The offer for this project was made during the transition period of the product from Trichy to Ranipet.
- The price estimation for Gates & Dampers were overlooked due to lack of scope clarity between the Units, which had been resolved for subsequent orders vide the meeting held on 30 June 2006 between Ranipet and Trichy.

- Now, system is in place to avoid such omissions for future contracts.

Thus, due to inadequate co-ordination between Trichy and Ranipet and lack of internal controls in submission of bids, the Gates and Dampers were not included in the budgetary prices which resulted in unjustified absorption of expenditure of Rs.8.17 crore. Had the PPIB verified inclusion of all items in the estimates before submitting the bid, the error could have been detected at that stage. Therefore, it is recommended that the Company should evolve a system of appropriate check of bid estimates before its submission to the customer.

HMT Machine Tools Limited

10.2.1 Violation of tender conditions in sale of property and delay in completion of sale

The process of sale of property belonging to Praga Tools Limited suffered from certain deficiencies viz., (i) non compliance with the tender conditions in accepting a defective bid document and (ii) failure to initiate timely action to shift the factory to the new premises resulting in delay in realisation of sale proceeds and consequent loss of interest of Rs.1.24 crore.

Praga Tools Limited (PTL)[♣] a subsidiary Company of HMT Limited (HMT) was declared as a sick Company during May 1999 by Board for Industrial and Financial Reconstruction (BIFR). The revival scheme approved (November 2005) by the Government of India inter alia included sale of property (land & building) at Kavadiguda (Secunderabad) and shifting of plant and machinery at Kavadiguda to Balanagar Plant at Hyderabad.

It was observed in Audit that the process of sale suffered from certain shortcomings on the part of the Company as discussed below:-

(i) Non compliance of tender conditions

The task of sale of property of PTL was entrusted (December 2005 and March 2006) to Asset Sale Committee of HMT. Accordingly, tenders were invited (April 2006) by HMT for sale of 8.56 acres of land and 1,89,927 sq. ft. building and structures. In response to the tender advertisement, Rajalaxmi Griha Nirman (P) Limited (Rajalakshmi) which quoted Rs.82.30 crore was considered as the highest bidder (H1).

Audit observed that the financial figures i.e., both the land value and the total bid value were completely altered by striking off earlier figures in the bid documents and the original signatory of the bid did not authenticate the corrections which were in violation of the tender conditions. As the corrected bid amount of Rs.82.30 crore was close to the reserve price fixed by the Company i.e., Rs.80.96 crore, it creates suspicion about the amount which was originally mentioned in the bid, the reasons for such alteration and the necessity of accepting the same. The bid was not rejected and re-tendering was not resorted to.

[♣] ***Merged with HMT Machine Tools Limited w.e.f., 1 April 2007 as per BIFR orders***

(ii) Loss of interest due to delay in completion of sale

As per the conditions of the allotment letter and sale agreement, the Company should have executed the sale deed by handing over the peaceful possession of the property within three months, i.e., latest by 25 October 2006. However, the Company executed the sale deed on 31 January 2007 after a further delay of about three months due to delay in the shifting of the factory. This resulted in consequent delay in receipt of balance 50 *per cent* consideration of Rs.39.55 crore (after adjusting the Earnest Money Deposit amount of Rs.1.60 crore), which was received on 29 January 2007, with consequential loss of interest amounting to Rs.1.24 crore[♣].

The Management stated (July 2009 and October 2009) that:

- The tenders were opened by the Tender Opening Committee in presence of all the parties or their authorised representatives. The corrections in the bid documents were done prior to submission of the bids by the parties or their authorised representatives, who were present during the tender opening process and no objections, were raised about the corrections by any of the other tenderers present.

- Re-tendering would have seriously affected the implementation of the revival plan since the funding of the revival plan depended on funds generated from sale of land.

- It was impracticable to work out the shifting of a running factory unless the deal was finalised: The award of contract for shifting was also delayed and released in October 2006 and hence shifting could be completed by mid December 2006.

The replies of the Management are not convincing since:

- If the correction in the bid was done prior to submission of bid, authentication should have been with the initials of the original signatory;

- Possible delay in implementation of revival plan is not a justification for compromising on transparency.

- The Company had initiated action (April 2006) for sale of land after five months of the approval of revival plan (November 2005) and the Company took three months in awarding (October 2006) the contract for shifting of the machinery from the date of issue of allotment letter (25 July 2006) to the successful bidder. In the light of the fact that shifting the factory was completed within two months from the date of award of contract, proactive action to shift the factory soon after the deal was finalised in July 2006, would have avoided the delay.

Thus, in spite of the unauthenticated corrections made in the bid documents, the Company continued the process of sale in favour of the party which was in violation of the tender conditions and failure to initiate timely action to shift the factory to the new

[♣] ***calculated at 12 percent per annum (Bank Prime Lending Rate of interest for 95 days from 26 October 2006 to 29 January 2007)*** premises resulted in delay in realisation of sale proceeds and consequent loss of interest of Rs.1.24 crore.

The matter was reported to the Ministry in September 2009; their reply was awaited (November 2009).

CHAPTER XI: MINISTRY OF HOUSING AND URBAN POVERTY ALLEVIATION

Housing and Urban Development Corporation Limited

11.1.1 Non-adherence to the guidelines

The Company did not adhere to the Reserve Bank of India guidelines and lacked control mechanism to monitor the utilisation of funds borrowed from banks for housing specific purposes.

Housing and Urban Development Corporation Limited, (Company) provides long term finance for construction of houses and urban development programmes. For this purpose, it raises funds through scheduled commercial banks (banks), financial institutions, bonds and public deposits.

During the period from April 1999 to March 2009, the Company borrowed funds aggregating Rs.6,535.25 crore from banks for housing purposes. The banks had lent funds to the Company subject to the guidelines laid down by the Reserve Bank of India (RBI) which stipulated that term loans could be granted by the banks to housing intermediary agencies♣ against the direct loans sanctioned/proposed to be sanctioned by these agencies. Loans upto Rs.five lakh per housing unit by housing intermediary agencies were to be treated as priority sector loans by the banks.

Audit scrutiny of funds borrowed by the Company from banks for housing sector during April 1999 to March 2009 revealed the following:

- The amount of Rs.6,535.25 crore borrowed from banks for housing sector lending (including Rs.5,031.25 crore for priority sector lending), was to be disbursed directly to the end users. The Company, however, disbursed only Rs.843.11 crore directly to the end users (including Rs.147.10 crore for priority sector). Thus, the Company did not lend Rs.5,692.14 crore as per RBI guidelines (which included Rs.4,884.15 crore meant for priority sector lending).

- The Company had borrowed funds aggregating Rs.8,813.92 crore during April 1999 to March 2009 but exact purpose for raising these loans was not specified in the respective loan agreements. These loans were classified broadly as ‘Housing & Urban Infrastructure’, ‘Housing & Infrastructure, ‘Housing & Social Infrastructure’ *etc*. As housing loans were subject to separate RBI instructions these loans should have been classified separately and not merged with other loans.

♣ ***Like Housing and Urban Development Corporation Limited***

- Funds amounting to Rs.771.76 crore disbursed by the Company for non-housing schemes like construction of commercial complex, office complex, river front development, development of Golf course, etc, were classified as housing loans.

The Management mainly stated (May 2009) that:

- The Company did not treat the bulk loans given to Government agencies for housing purpose as diversion of housing funds. The Company was funding to priority sector through Government agencies and was adhering to criteria of priority sector as defined by the Ministry of Housing and Urban Poverty Alleviation and the Planning Commission, which varied from the criteria adopted by the RBI.
- It would be difficult and imprudent proposition to maintain separate accounts (purpose-wise) for loans. However, due care was taken to ensure that the borrowings were deployed for the stated objectives.
- Area Development Schemes, *viz.*, commercial and office complex, river front development, development of Golf course, *etc.*, for township are being classified under 'Housing Schemes'.

The reply of the Management is not convincing as:

- The Company had agreed to comply with the RBI instructions while borrowing funds from banks for housing purposes. Therefore, it should have ensured that the instructions of the RBI were followed while utilising such funds. The RBI confirmed (August 2008) that bulk loans disbursed by the Company to State Housing Boards, Urban Development Authorities and Private builders could not be treated as direct loans by the Company.
- Absence of mechanism for monitoring sector-wise mobilisation and utilisation of funds led to diversion of priority sector funds to non-priority areas and of funds meant for direct retail lending to bulk lending.
- Schemes like construction of commercial complex, office complex, river front development, development of golf course, *etc.*, can not be treated as Housing loans.

Thus, absence of a control mechanism in the Company to monitor the mobilisation and utilisation of borrowings for the specified purpose led to lending of Rs.5692.14 crore in violation of the RBI guidelines of which Rs.4884.15 crore pertained to priority sector.

As the Company would continue to borrow funds for housing purposes in future also, it is recommended that proper monitoring mechanism may be set up to ensure compliance of the RBI guidelines.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

CHAPTER XII: MINISTRY OF MINES

Bharat Gold Mines Limited

12.1.1 Inept handling of estate

Company's action of entrusting the Management of its huge estate in the hands of skeletal contractual staff resulted in inept handling leading to encroachment/non-collection of rent and loss of financial benefit of Rs.44.18 crore.

Bharat Gold Mines Limited (Company) was incorporated in March 1972 and was one of the major producers of gold in India. It was referred (1992) to BIFR[1] as its net worth was fully eroded. Based on the orders (June 2000) of BIFR/AIFR[2], the production activities were stopped w.e.f., October 2000 and the Company was closed from 1 March 2001. The Employees Union of the Company challenged the closure in the High Court of Karnataka which upheld (September 2003) the closure and made certain recommendations to the Government of India (GOI) regarding estate of the Company.

Audit noticed that, the Company's inept handling of its estate after the closure of its production activities resulted in:

➢ **Unauthorised occupation/encroachment –**

- The Company after a survey (April 2009) of its Town ship at Kolar Gold Fields, Karnataka, found that 502.48 acres of land[3] (valued at Rs.26.27 crore @ Rs.12 per Sq.ft) encroached by outsiders. However, a similar exercise of surveying the balance vacant land was not done.

- 3609 quarters were under un-authorised occupation by outsiders/private agencies. The annual recurring loss of rental income worked out to Rs.8.66 lakh[4].

➢ **Inability to collect rentals-**

- 4410 quarters were allotted to ex-employees on monthly rental basis between 1981 and 2005. Only 79 allottees were regular in payment of rent. An amount of Rs.4.93 crore was overdue from defaulters as at the end of December 2008 (against this a deposit of Rs.1.91 crore was held by the Company). Details of demand and collection of rent from January 2009 were not on record. The Company failed to evict the defaulters and take possession of its property.

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[1] ***Board for Industrial and Financial Reconstruction***

[2] ***Appellate Authority for Industrial & Financial Reconstruction***

[3] ***Out of total holding of 12187.30 acres of land, 10968.57 acres (cost price Rs.55 lakh) was stated to be vacant***

[4] ***Based on the minimum rent of Rs.20 p.m. /quarter fixed for quarters allotted by the Company in other parts of its township***

- The Company leased commercial establishments and residential accommodation to 777 outsiders on monthly rental basis of which only 100 parties were regular in remittance of monthly rent. The dues from the defaulters till December 2008 amounted to Rs.1.10 crore. The basis for fixing the monthly rental was not on record, as the monthly rentals was as low as Rs.0.50 per month. Details of demand and collection of rent from January 2009 were not on record. Leases have not been renewed.

➢ **Incorrect assessment of sale value of houses-**

- As per the recommendations (September 2003) of the High Court of Karnataka the Central Government (Ministry of Mines) could consider transfer/conveyance of the quarters/houses allotted to the employees of the Company on sital area basis considering this as a retirement package at a concessional rate of Rs.10 per sq.ft for sital area up to 1000 Sq.ft., Rs.20 per sq.ft for sital area between 1000 and 3000 sq.ft. and Rs.30 per sq.ft for sital area above 3000 sq.ft. The Court had also recommended that nothing might be charged towards the value of structures as they were very old and in a dilapidated condition. The Ministry had the discretion to modify the recommendation. The Ministry accorded approval (August 2006) to implement the recommendations of the High Court. Despite a clear recommendation by the High Court to charge for sital area, the Company made an issue of absence of clarity on recommendation and decided (April 2007) to charge only for plinth area of the building excluding courtyard/vacant land without getting the issue clarified legally. Accordingly, possession of 2829 quarters was handed over to the retired employees.

- After five years of High Court's recommendation, the Company obtained a legal opinion on the issue in November 2008, which clarified that sital area includes courtyard/vacant land. The inaccuracy in the implementation of recommendation has not been informed to the Ministry for approval (November 2009). The amount recoverable for the vacant land/courtyard on 2829 houses handed over worked to Rs.13.52 crore where as only Rs.2.27 crore was worked out considering only the plinth area of the buildings. This has resulted in loss of revenue amounting to Rs.11.26 crore. Even out of Rs.2.27 crore due, the Company could recover/adjust only Rs.1.65 crore from the terminal benefits of the retiring employees leaving an overdue amount of Rs.0.62 crore.

Thus, inept handling of the estate resulted in loss of financial benefit of Rs.44.18 crore to the Company.

The Company stated (July 2009):

- That when the operations were closed, there were no functional departments and contract personnel were inducted for administrative work;

- As regards sale of quarters, it was stated that the rates 'other than for the plinth area' would be dealt in due course before effecting the transfer of ownership. It further stated (November 2009) that a Chief Security Officer (CSO) had been appointed recently to ward of thefts and pilferage of property and a proposal was submitted to the GOI for appointing the CSO as the Estate Officer under Public Property Act to get the houses vacated under the provisions of the Act.

The reply of the Company is not convincing as:

- Company's action of placing the management of its huge estate in the hands of skeletal contractual staff resulted in inept handling leading to encroachment/non-renewal of rent rates and non-collection of rent etc.

- The Company failed to incorporate a suitable clause in the allotment letters issued to the employees to the effect that the sale was subject to the rate for 'area other than plinth area'.

In view of soaring value of real estate, the Ministry/Company needs to take concerted steps to see that the Company's property is protected by evicting the encroachers. An appropriate system to reassess the rent/lease amount/sale value of quarters sold should be enforced for collection of dues and effective management of its real estate.

The matter was reported to the Ministry in August 2009; their reply was awaited (November 2009).

CHAPTER XIII: MINISTRY OF PETROLEUM AND NATURAL GAS

Bharat Petroleum Corporation Limited

13.1.1 Avoidable payment of lease premium for regularisation of lease-hold plots

Failure to execute lease agreement with CIDCO after making full payment of lease premium resulted in extra expenditure of Rs.10.40 crore and an additional liability of Rs.17.76 crore towards allotment of alternate plot.

Bharat Petroleum Corporation Limited (Company) was allotted two plots of land by the City Industrial Development Corporation of Maharashtra Limited (CIDCO), one for commercial purpose (November 1995) and another for residential purpose (January 1996) located at Kharghar, Navi Mumbai on a long term lease of 60 years. As per the terms of allotment, possession of land was to be handed over to the Company after payment of full lease premium and execution of lease agreement. Accordingly, the Company made a payment of Rs.14.02 crore[♣] towards lease premium for the two plots as per the schedule given in the terms of allotment. In July 1997 and January 2000, CIDCO asked the Company for execution of the lease agreement for the two plots. However, the Company was lackadaisical in taking action for execution of the lease agreement.

In August 2002, the Management identified both the commercial and residential plots as surplus to its requirements. Although the lease agreement for both the plots had not been executed, the Company offered the plots for sale through newspaper advertisements and also without having consulted its Legal Department. Since response to the advertisements was poor, the Company decided to hold the plots for another two years.

In July 2007, the Company noticed that its residential plot had been occupied by two private parties and filed (2007) a writ petition in the High Court of Mumbai requesting the Court to direct CIDCO to execute a lease agreement in its (Company) favour as per the allotment. The Court decreed (December 2007) that both parties should resolve the matter by mutual negotiations. The Company and the CIDCO agreed (January 2008) that the Company would pay an additional lease premium of Rs.10.40 crore to regularise the allotment of the commercial plot and request for the fresh allotment of a residential plot in Kharghar at market rates. Accordingly, the Company paid (November 2008) Rs.10.40 crore towards additional lease premium for the commercial plot and was in the process (August 2009) of executing the lease agreement with CIDCO. As regards the residential plot, the Board of the Company approved (September 2008) purchase of an alternate plot by paying an amount of Rs.17.76 crore.

[♣] ***Towards commercial plot–Rs.10.35 crore and towards residential plot –Rs.3.67 crore.***

Audit observed that the Company did not:

- Execute the lease agreement with CIDCO even after payment of the lease premium as per the terms of allotment.

- Take requisite action even after CIDCO reminded the Company in January 2000 for execution of lease agreement for the plots for which the Company had paid an advance of Rs.14.02 crore to CIDCO in 1995-96.

- Initiate action to execute the lease agreement till it was noticed that the residential plot had been occupied by private parties. This indicated poor monitoring by the Management of its real estate activities.

The Management stated (May 2009) that the factors leading to the purchase of the commercial and residential plots at Kharghar were on account of, *inter alia*, an increase in the activities of the Company over the years and lack of availability of suitable land for construction of an office building within the city of Mumbai at cheaper rates.

In respect of the commercial plot, the Management further stated that:

- The process of executing the lease agreement with CIDCO was delayed, among other things, due to non receipt of clarification from CIDCO regarding the effect of the Coastal Regulation Zone (CRZ) on the plot.

- Delay in obtaining clarification sought from CIDCO as regards construction of training centre etc.

- The additional lease premium and other charges have already been paid to CIDCO and the execution of lease agreement and registration is in process.

As regards the residential plot, the Management stated that:

- The matter regarding demarcation of the residential plot and execution of lease agreement was continuously followed up with CIDCO and it was only in January 2000 that CIDCO had requested the Company to come for execution of the lease agreement.

- The proposal for shifting of the offices and residential quarters to Kharghar was deliberated upon due to major changes in the job profiles at various levels, infrastructure around the area was inadequate and there was no clarification from CIDCO about the applicability of CRZ on the plot.

The Ministry while endorsing the views of the Management stated (October 2009) that the recommendations of legal department were sought for making payments as demanded by CIDCO as a normal process and payment effected thereafter.

The replies are not convincing on account of the following:

- The Company had not sought the advice of its legal department before making the full payment of the lease premium. The applicability of CRZ or any other limitations/factors which might affect the development of the plot in future should have been ascertained by the Company before proceeding with the purchase of the plots.

- Subsequent to making the full payment of Rs.14.02 crore for both the plots as per the terms of allotment, the Company vacillated in deciding their actual utilisation and started taking into account other subsequent/extraneous factors. As a result, during the period between 2000 and June 2007 the Company failed to take purposeful action for execution of the lease agreement with CIDCO.

- The Company proceeded to take action towards executing the lease agreement for both the commercial and residential plots, only after it became aware that the residential plot had been encroached upon by private parties.

Thus, inadequate internal controls coupled with lack of timely action on the part of the Management in safeguarding the assets for which full lease premium had been paid to CIDCO, resulted in an avoidable expenditure of Rs.10.40 crore and an additional liability of Rs.17.76 crore.

GAIL (India) Limited

13.2.1 Under realisation in Gas pool account

Non-implementation of Ministry's directives for billing of gas utilised in production of products other than fertilizer at the market rates resulted in under realisation of Rs.40.48 crore in the Gas Pool Account besides avoidable extra burden on subsidy.

GAIL (India) Limited (Company) was supplying Natural Gas (NG) to its customers at prices determined by Government of India (GOI). The pricing structure for sale of NG, effective from 1 July 2005, restricted sale of NG at subsidised price[1] to power, fertilizer sector and other eligible consumers for priority usage only. After considering the usage of subsidised gas by fertilizer companies like Rashtriya Chemicals and Fertilizers Limited (RCF) and Deepak Fertilizers and Petrochemicals Limited (Deepak Fertilizers) for production of chemicals not covered under the Government orders, the Ministry of Petroleum & Natural Gas (Ministry of Petroleum) directed (July 2006) the Company to charge market price[2] of NG used for manufacturing products other than fertilizers by obtaining the quantities so consumed from the consumers concerned.

Audit noticed (September 2007) that despite correspondence with the RCF and Deepak Fertilizers, the Company failed to obtain the quantities of NG utilised for production of non-fertilizer products. Further, the Company did not evolve a mechanism for ascertaining the quantities of NG consumed for fertilizer and non-fertilizer products.

[1] ***Rs.3200 per Million Metric Standard Cubic Meter per day***
[2] ***Market price of Regasified Liquified Natural Gas(RLNG) for Rs.6899 per MCM***

Consequently, NG consumed for non-fertilizer products continued to be charged at subsidised rates. In April 2009, Ministry of Fertilizers and Chemicals assessed non-fertilizer usage in respect of RCF, Trombay only at 20 *per cent* of total consumption and recommended for its implementation from January 2009. Ministry of Petroleum approved (October 2009) for billing as follows:

- NG used for non-fertilizer purposes from January 2009 to be charged at market price.
- As regards period prior to January 2009, financial implication of charging rates for chemicals, both for gas pool account and the Company in terms of revenue foregone, as well as for the government subsidy and losses to the concerned companies to be worked out by the Company and intimate the same to Ministry of Petroleum.

The Management in its reply stated (March 2008/August 2009) the following:

- The Company would have implemented the order in letter and spirit, if the information would have been made available by the fertilizer units. The same was communicated (June 2007) by it to the Ministry of Petroleum for advice on the issue, which was awaited.
- The Company has not caused any loss to the gas pool account as the matter is to be resolved between the Ministry of Petroleum and Department of Fertilizers while the Company would act as per government directives.

The reply of Management is not convincing as:

- Being a custodian of Gas Pool Account, it was the responsibility of the Company to devise a system suitable to their requirement for correct billing and realisation of the legitimate dues from consumers as per the directives of its Administrative Ministry instead of taking shelter under the excuse of non-availability of segregated quantity of NG used for purposes other than fertilizers.
- Misuse of NG for a purpose other than those prescribed in the aforesaid order of Ministry of Petroleum was indicative of sub-optimal managment of the gas pool account by its custodian, i.e., the Company.

Thus, lack of co-ordination between the two Ministries and laxity on the part of the Company in charging the market rate for NG used for purposes other than those prescribed in Ministry's order resulted in loss of revenue estimated at Rs.40.48 crore[♥] in the Gas Pool Account for the period 1 January 2009 to 31 October 2009 in respect of Trombay unit of RCF only. The amount of under realisation in the Gas Pool Account would be much more than this considering all the units using NG for non-fertilizer purposes including RCF and Deepak Fertilizers. Also for the period prior to 1 January

[♥] ***0.36 (20 per cent of NG allocation of 1.8 MMSCMD) x Rs.3699 per MCM (Rs.6899-Rs.3200) x 1000 x 304 days***

2009 (from July 2006 to December 2008), there was considerable revenue foregone by the Company/gas pool account as well as Government subsidy paid to these companies.

The matter was reported to the Ministry in August 2009, their reply was awaited (November 2009).

Hindustan Petroleum Corporation Limited

13.3.1 Loss of interest due to delay in availing of customs duty exemption

Delay in utilisation of advance licence for availing exemption of import duty resulted in borrowings and consequent loss of interest of Rs.8.43 crore.

According to the Foreign Trade Policy (FTP)[♣] 2004-09, an advance licence may be issued to a manufacturer for duty free import of inputs which were physically incorporated in the export product. The export obligation was required to be discharged within the period prescribed in the licence.

The Mumbai Refinery, a unit of the Hindustan Petroleum Corporation Limited (Company), imported crude and exports processed petroleum products viz., Furnace Oil, Naphtha, LSHS, HSD, HEXANE, etc. The Company was, therefore, entitled to customs duty exemption on the crude import under the Advance Licence Scheme.

A scrutiny by Audit of the advance licences obtained by the Company for the period 2003-04 to 2007-08 revealed delay in the utilisation of advance licences obtained by the International Trade and Supplies Department of the Company for the unit. Eight advance licences were obtained for customs duty exemption for import of crude during the period 2003-04 to 2007-08 for exports of finished products in the near future by the unit. Despite holding the licences to claim custom duty exemption benefit at the time of import of crude oil for its production requirements, the unit paid an amount of Rs.87.27 crore towards customs duty during the period April 2003 to November 2006 without utilising advance licences in five cases. The exemption from customs duty was, however, claimed belatedly against subsequent imports of crude oil. The delay in utilisation in respect of five out of the eight licences ranged from 55 days to 627 days. Consequently, the Company incurred loss of interest of Rs.8.43 crore on the customs duty paid out of borrowed funds due to delayed utilisation of the advance licences.

The Management in reply stated (June 2009) that:

- The refinery manufactured several joint products and due to operational constraints it was not possible to satisfy the requirement of the FTP that the exported product was out of a particular earmarked raw material.

- The exports could not be planned in advance since export was only on the surplus production over domestic demand.

[♣] ***Para 4.1.3***

- Sometimes customs authorities do not allow utilisation of advance licences in order to protect their revenue collection targets; and to impose penalty in case of default in fulfillment of export obligations.

The reply is not convincing on account of the following:

- The FTP does not specifically mention that the export products should be out of the earmarked raw material and the quantity. Value of imports and exports were worked out as per Standard Input Output Norms.

- The Company obtains the advance licences only after getting intimation from the Mumbai Refinery of its intention to export the products.

- There was nothing on record to prove that the Customs Authorities had denied the utilisation of advance licences. The time provided for fulfilling the export obligation under the Advance Licences scheme was 18 months to 24 months. Hence, the possibility of imposition of penalty arising in case of non-fulfillment of export obligations was not convincing.

- Despite advice by the concerned Ministry (April 2006) to streamline the procedure to avoid recurrence of delays in utilisation of the advance licence, no efforts were made by the Company to formulate such procedure.

Thus, due to weak internal controls the Company failed to ensure prompt utilisation of licences and avail the benefit of exemption from payment of customs duty on imports. Consequently the Company resorted to borrowed funds for payment of customs duty resulting in avoidable loss of interest of Rs.8.43 crore during the period 2003-04 to 2007-08.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

Indian Oil Corporation Limited

13.4.1 Loss of revenue and additional expenditure

Barauni Refinery suffered loss of revenue of Rs.212.71 crore by diverting high value product components for generation of low value product and also it could not process cheaper high sulphur crude due to the constraint in its processing unit resulting in additional expenditure of Rs.180.32 crore.

Indian Oil Corporation Limited (Company) approved (February 1999) the capacity expansion of Barauni Refinery (refinery) to six MMTPA♦. This would involve processing of one MMTPA high sulphur (HS) imported crude and five MMTPA low sulphur (LS) imported crude. Elimination of generation of Light Diesel Oil (LDO), a low value product, was also a part of project. The project was commissioned in December 2002.

♦ ***Million Metric Ton per Annum***

(a) During the period from 2003-04 to 2007-08, the refinery diverted 3.7 lakh MT High Speed Diesel (HSD) components for generation of LDO instead of production of HSD, a high value product. This diversion of HSD components had resulted in revenue loss of Rs.212.71 crore[1] to the Company.

Accepting the diversion, the Management/ Ministry justified (June/ October 2009) the generation of LDO and stated that:

- HSD components were diverted during 2003-04 and 2004-05 as secondary unit was not stabilised.

- LDO was produced in later years to meet the requirement of customers (power plants) as per Supply Plan.

The above contention is not convincing as:

- The secondary processing unit was stable from 2003-04 as evident from its high capacity utilisation[2].

- Supply Plan was formulated by the Company independently based on profit maximisation.

- The design product pattern of the refinery after expansion does not include LDO, the realisable value of which is lower than cost of crude.

There was no economic justification to generate LDO by sacrificing the production of high value HSD.

(b) The refinery design required it to handle 20,100 MT of sulphur[3] for processing one MMTPA HS crude. During the period from 2003-04 to 2007-08, the refinery could not process the desired quantity[4] of HS crude due to metallurgical constraint of major equipments[5] of Coker A unit which were not modified to process HS crude residues. This limited[6] the ability of the refinery to handle the sulphur in the HS crude. The actual processing of HS crude by the refinery was lower than the design by 8.12 lakh MT during the period from 2003-04 to 2007-08. This was substituted by higher processing of LS crude. LS crude being costlier than HS crude, the refinery had to incur additional expenditure of Rs.180.32 crore during the above period.

While accepting this the Management stated (June 2009) that:

- Due to increased processing of LS crude the distillate yield was higher than the design yield of 84.9 *per cent* resulting in a gain of Rs.254 crore.

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[1] Difference in realisable value of HSD and LDO less variable cost of further processing of HSD components in secondary processing unit

[2] 99 per cent in 2003-04 and 101 percent in 2004-05

[3] 2.01 per cent of 1 MMTPA

[4] 36,59,285 MT (Actual processed 28,47,030 MT + Deficit in processing 8,12,255 MT)

[5] Coke drum, Quench column, Kero stripper, LDO stripper and CFO stripper

[6] Deficit in handling of sulphur ranged between 2207 MT and 4632 MT

- Action to remove the constraints in Coker A was not taken on economic considerations.

The contention of the Management is not convincing due to the following:

- The Company has derived the distillate yield considering the production of LDO. The design yield with which it has been compared does not include LDO. Excepting in 2005-06, the refinery's distillate yield did not increase beyond the design yield.

- The Company will continue to incur the additional expenditure on crude till the proposed Coker A modifications are completed.

Thus, diversion of high value product components for generation of LDO resulted in revenue loss of Rs.212.71 crore and the Management's inaction cost the Company Rs.180.32 crore while also frustrating the refinery expansion objective of optimising the processing of cheaper HS crude.

The matter was reported to the Ministry in June 2009; their reply to the part (b) of the para was awaited (November 2009).

13.4.2 Avoidable payment of paralleling charges

Lack of planning and foresightedness for synchronisation of demand and paralleling facility for electricity at the time of entering into a fresh contract with UPCCL resulted into avoidable payment of paralleling charges amounting to Rs.16.76 crore.

Mathura refinery of Indian Oil Corporation Limited (Company), in order to meet its power supply requirement, entered into an agreement (January 1982) with the erstwhile Uttar Pradesh State Electricity Board, now UP Power Corporation Limited (UPPCL), for supply of 4000 KVA[1] power. Subsequently, with a view to ensuring uninterrupted parallel power supply to the various processing units fed from its 37.5 MW[2] thermal power station, the refinery entered into a supplementary agreement (1985) with the UPPCL which, *inter alia*, included clause 5 stipulating the terms governing paralleling charges providing for payment of Rs.22,05,900 per month as additional charge. Meanwhile, the refinery installed two Gas Turbo Generators GT-I (1998) and GT-2 (1999); thereby increasing its installed power generation capacity to 78.1 MW. With the enhancement in the power generation capacity, the refinery became self reliant, not requiring paralleling facility from UPPCL. Also, the Company decided to reduce its own contract demand from 4000 KVA to 3000 KVA in November 1999.

Audit noticed (February 2009) the following:-

- The very purpose for which parallel facility/operation was arranged with UPPCL was no longer required especially after enhancement in the power generation

[1] ***Kilo Volt Ampere***
[2] ***Mega Watt***

capacity in 1999; however, the Company while entering into a fresh agreement with UPPCL (November 1999) for reducing the contract demand to 3000 KVA, failed to obtain deletion of clause 5 of the agreement governing paralleling arrangement which therefore, remained in operation.

- The matter of withdrawal of paralleling clause was taken up with UPPCL by the Company for the first time only in August 2001 after it was pointed out by audit in March 2001, though in response thereto, the Company stated that paralleling facility was necessary for operational purposes. Provisional approval for deletion of the paralleling clause was obtained by the Company in December 2007. This resulted in avoidable expenditure of Rs.16.76 crore.

The Management and Ministry stated (June and October 2009) the following:-

- The paralleling connection had nothing to do with self-sufficiency in power generation and it was in place right from inception of the refinery even when power generation was adequate. Action for deletion of clause 5 was taken once the confidence about capability of the generating system was gained.

- The payment of paralleling charges was stopped from January 2008 after the Chief Engineer, UPPCL issued directions to his officials for deletion of clause 5.

The reply of the Management and Ministry is not convincing as the Company continued to pay paralleling charges from September 2001, when the Company itself took up the matter with UPCCL for deletion of clause 5 after gaining confidence about its capability and could have avoided by stopping payment after giving one month's notice under clause 19 of the agreement.

Thus, the Company not only erred in the first place by incorporating a paralleling clause in the revised agreement but also failed subsequently to take timely appropriate remedial measures in the best interests of the Company leading to an avoidable payment of Rs.16.76 crore.

Oil and Natural Gas Corporation Limited

13.5.1 Loss due to purchase of condensate at crude oil price

Company's decision to buy condensate produced by the Tapti Joint Venture at crude oil price instead of gas price resulted in a loss of Rs.853.09 crore from April 2005 up to March 2009.

The Tapti gas field is a joint venture (JV), jointly operated by Oil and Natural Gas Corporation Limited (Company), Reliance Industries Limited (RIL) and British Gas Exploration and Production India Limited (BGEPIL) as per the Production Sharing Contract (PSC) executed in December 1994. The production of gas from the field started in June 1997. The field is also producing condensate♠ along with gas. The PSC, however,

♠ 'Condensate' is the low vapour pressure hydrocarbon obtained from natural gas through condensation or extraction.

did not provide for the disposal of Tapti condensate (JV condensate) and the Government of India (GOI) also did not appoint its nominee for purchase of the condensate. At the instance of the GOI, an 'interim arrangement' was made (May 1998) whereby the Company retained the JV condensate and in turn delivered its own gas to GAIL (India) Limited[1] on energy (MMBTU[2]) equivalent basis. GAIL was paying for the total MMBTU of gas to the JV as per the PSC gas pricing mechanism. The Company in turn was using the JV condensate for extraction of value added products (VAPs) *viz*., Naphtha, Superior Kerosene Oil (SKO), Liquified Petroleum Gas (LPG) etc., at its own plant at Hazira. This arrangement continued till 31 March 2005.

The Company was the transporter and processor of JV gas and its issues on fixation of transportation and processing charges were outstanding with the JV. Other two JV partners (viz., RIL and BGEPIL) insisted on valuation of condensate at crude oil price instead of gas price as a precondition for settlement of these issues. In December 2005, the Company entered into a 'settlement agreement'[3] (effective 1 April 2005) with Panna Mukta and Tapti(PMT) JV on pricing of condensate at crude oil price including other related issues like fixation of transportation and processing charges and delivery point etc. The Company apprised (March 2006) its Board of Directors (Board) that on valuing the condensate at crude oil price, the Company would gain Rs.131 crore (US$29.11 million) in terms of value of VAPs to be extracted from the condensate production profile of 2.021 MMT for the period from April 2005 to 2019. The proposal to value condensate at crude oil price under the 'settlement agreement' was approved by the Board in March 2006.

Audit observed (June 2008) that:

- The decision of the Company to purchase condensate at crude oil price was inconsistent with the directives (May 1998) of Ministry of Petroleum and Natural Gas (MOPNG) to treat the condensate as gas. MOPNG had reiterated its decision in November 2003 and informed the JV that the existing system would continue. Further, a study conducted (February 2005) by Engineers India Limited at the instance of MOPNG also concluded (March 2005) that condensate obtained from Tapti field could be treated as gas which was accepted (April 2005) by the MOPNG. Besides, the Company was valuing the condensate generated from its own Bassein gas field[4] at gas price and paying royalty[1] as applicable to gas.

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[1] ***Gail (India) Limited - Government nominee for purchase of gas***

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

[3] ***'Settlement Agreement'- Tapti and Panna-Mukta JV gas is being transported through Company's pipeline from offshore to onshore at Hazira. Further, JV gas is also processed at Company's Hazira onshore plant before re-delivering to GAIL i.e. Government nominee. The production from these JV fields commenced from 1997 and 1998 respectively. However, the transportation tariff and processing charges for Tapti gas and processing charges for Panna-Mukta gas could not be finalised due to disagreement between JV and ONGC over its calculation. Company also could not get transportation charges for Panna-Mukta gas due to dispute between JV and GAIL (Buyer) over delivery point of gas as PSC did not indicate any delivery point. After allowing the direct marketing rights to JV to sell JV gas to private domestic parties, a settlement agreement was entered into between JV (seller) and Company (transporter) on transportation charges and processing tariff. In the settlement agreement Company also agreed to purchase the JV condensate at crude price.***

[4] ***The gas as well as condensate of Company's Bassein gas field and JV's Tapti field is transported in co-mingled form through Company's trunk line from offshore to onshore and processed at Hazira.***

- The Company's decision to treat condensate as crude was imprudent as it had resulted in a loss of Rs.853.09 crore[2] (upto March 2009) to the Company. Considering the average price paid for condensate (i.e., US$69.56 per barrel), loss to the Company over the remaining contract period (2009-2019) was estimated at Rs.1091.58 crore[3]. The net gain of Rs.131 crore on the VAPs apprised to the Board was in fact loss of Rs.202 crore (US$45 million) as the Company had not considered the subsidy element on domestic LPG and SKO which it was bearing as per the Government directives.

The Management in reply stated (May 2009) that:

- A comprehensive package deal was conceptualised to address all pertinent issues of JV partners involving transportation and tariff of PMT gas and Panna-Mukta processing charges which involved sale/purchase of Tapti condensate at a bench marked condensate price;

- All the details of the 'settlement agreement' were informed to the Ministry and Directorate General of Hydrocarbons (DGH) by the PMT-JV in January 2006;

- The valuation of Tapti condensate was derived from the provision of PSC which stipulated the mechanism for the valuation of crude oil and also that determination of price of sale of crude oil would apply *mutatis mutandis* to condensate;

- While seeking approval of Board, the estimated benefit to accrue was provisionally assessed based on past average crude oil and condensate price index and that the subsidy element was independent of the quantum of production of crude; and

- The GOI had benefited by sale of condensate as liquid as its share of profit petroleum and levies were greater than before.

Reply of the Management is not convincing in view of the following:

- The decision of the Company to purchase condensate at crude oil price was not in accordance with the GOI's directives. Further, the reply of the Management does not address the inconsistency in the pricing of the condensate being produced from the Company's own Bassein gas field and that from the Tapti field under the JV.

- The intimation by the JV in 2006 to the GOI was silent as regards the pricing of condensate. As per the PSC, the JV was a 'contractor' and GOI is the owner of JV field. The GOI had only given the mining lease to the contractor to explore and exploit hydrocarbon resources on certain terms and conditions. The JV which is the seller and the Company which is the buyer cannot independently decide the

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[1] ***In case of crude oil both royalty and cess are payable, whereas, in case of gas, only royalty is payable.***
[2] ***Considering the differential price of crude oil and price of gas***
[3] ***Under the settlement agreement, the loss upto March 2009 and for the remaining contract period would be Rs.825.21 crore and Rs.1093 crore respectively.***

pricing of the hydrocarbon resources, including that of condensate. Hence, the Company, being a buyer of JV condensate, should have sought the approval of the GOI before agreeing to purchase the condensate at crude oil price.

- As per Article 1.18 of the PSC, for the condensate produced from an oil field, the provisions of the PSC shall apply to such condensate as if it were crude oil. Tapti being a gas bearing field, the provision of Article 19.11 of the PSC on valuation of oil did not apply to condensate.

- The valuation of the Tapti condensate at crude oil price was a pre-condition of the JV partners for resolution of transportation charges and processing fees through the 'settlement agreement'. Therefore, it was necessary for the Company to assess the incremental benefit considering the differential in the existing pre-settlement and revised post-settlement tariff/processing charges on the basis of pricing the condensate at crude oil price. However, the Company apprised the Board only to the limited extent of the likely revenue that would accrue in view of the revised transportation/processing charges and benefits from extraction of value added products from purchase of condensate at crude oil price.

- The net loss to the Company, even after taking into account the additional benefit of Rs.154.35 crore till March 2009 which accrued to the Government by sale of condensate as liquid, works out to Rs.670.86 crore.

Thus, the decision to buy condensate produced by the JV at crude oil price instead of gas price from April 2005 was in contravention of the GOI directives which benefited the private parties of the JV at the cost of the Company.

The matter was reported to the Ministry in July 2009, their reply was awaited (November 2009).

13.5.2 Loss due to suspension of operations by the Directorate General of Shipping

Failure of ONGC to oversee compliance with the statutory requirements by the operation and maintenance contractors resulted in suspension of operations of offshore supply vessels by the Directorate General of Shipping and consequent expenditure of Rs.576.29 crore on idling of rigs.

The operational requirements[♣] of offshore installations and rigs of Oil and Natural Gas Corporation Limited (Company) were being met by a fleet of 59 (31 owned and 28 hired) offshore supply vessels (OSVs). The Company had awarded (May 2007) the Operation and Maintenance (O&M) contract for its owned OSVs to SICAL Logistics (17 Samudrika series OSVs) and HAL Offshore (14 Sindhu series OSVs) for a period of three years. The OSV, Samudrika-10, after being put in operation had capsized in July 2007. Consequently, the Directorate General of Shipping (DGS) reviewed all the other 30 OSVs and observed that the OSVs were being operated without valid statutory

[♣] ***The OSVs undertake supply duties (supply of cargo, equipment, water, fuel etc) rig towing, anchor laying, transport of crew, inter-field transfer of men and material, fire fighting and standby duties.***

certificates and, therefore, withdrew (July 2007) the Document of Compliance (DOC)[1] of both SICAL and HAL. Due to suspension of the DOC, the Company recalled (July 2007) all the 30 OSVs from the operators.

The Company assigned (October 2007) the O&M contract of the 16 Samudrika series OSVs to The Shipping Corporation of India Limited (SCI) on nomination basis. SCI took over the vessels from SICAL after attending to the preliminary defects brought out in the Handing Over Taking Over Note during November 2007 and April 2008. However, these vessels could not be fully put into operation till May 2009 as they were sent for repairs, scheduled annual survey and statutory dry docking. The Company decided to continue the contract with HAL for the Sindhu series OSVs. HAL could get the certificate renewed only for 10 out of 14 OSVs. However, 10 vessels were under repairs and dry docking. Thus, all the 30 OSVs were on downtime since July 2007 and as of May 2009 only 19 (14 Samudrika and 5 Sindhu series OSVs) were in operation.

The short supply of the OSVs resulted in idling of 27 chartered and owned rigs for a total of 27,875 hours (1,161 days) from July 2007 to May 2009. The loss due to idling of rigs on account of non availability of OSVs was Rs.576.29 crore.

It was observed (January 2008) in Audit that:

- Both SICAL and HAL[2] had not obtained the interim Safety Management Certificate (SMC) for the OSVs resulting in invalidation of DOC by DGS. Though SICAL was required to obtain an interim SMC for 10 vessels, it had a valid SMC for only four vessels as on the date of issue (July 2007) of show cause notice by the DGS. Similarly, in respect of the 14 Sindhu series vessels, HAL had an interim SMC only for one vessel. The interim SMC/Ship Security Certificate for nine vessels was obtained during February 2008 and September 2008. SMC for the remaining five vessels was yet (May 2009) to be obtained as these were in dry dock.

- Both SICAL and HAL had subcontracted the Master and crew for the OSVs through non DGS registered firms. As per the contract, the operators were to furnish along with the monthly invoices a list of crew deployed on board the OSV indicating, *inter-alia*, Continuous Discharge Certificate number[3] assigned by the DGS. The list was to be signed by the operators and countersigned by the in-charge of Nhava Supply Base of the Company. The operators were submitting the list after a delay of three to four months. The Company, however, failed to ensure the timely submission of the list of the Master and crew for verifying the credentials of the crew.

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[1] ***DOC is a document issued to a company which complies with the requirements of ISM (International Safety Management) Code, 2002 which provides an international standard for the safe management and operation of ships and for pollution prevention.***

[2] ***As per the Bid Evaluation Criteria the bidders immediately after award of the contract and before taking over the OSVs from the previous operator were to obtain an interim SMC for the OSVs.***

[3] ***Continuous Discharge Certificate-cum- Seafarers Identity Document shall apply to persons, who fulfill the eligibility conditions for employment as seamen (as defined under clause (42) of section 3 of the Merchant Shipping Act, 1958), on board the ships.***

- As of May 2009, only 19 of the 30 owned OSVs were in operation. Though the Company hired (October-November 2007) an additional eight OSVs to meet the operational requirement, as per the Company's own assessment on an average, there was a shortfall of 29 vessels which adversely affected the operations of rigs resulting in idling expenditure of Rs.576.29 crore.

The Management stated (May 2009) that:

- The vessels were allowed to sail only after obtaining written confirmation from the Master of the vessel for full compliance of crew on board and ensuring that machinery and equipment in operation and all certificates were valid. It was the responsibility of the operator to ensure compliance to DGS requirement. The Master of the vessel, however, gave a false undertaking and the operator did not bring it to the knowledge of the Company.

- To be more vigilant, the Company had reinforced the vessel checking by appointing an international third party inspection agency and also by posting a safety officer to ensure safety and statutory requirements before sailing of the vessels.

Reply of the Management is not convincing in view of the following:

- The Company cannot absolve itself of the responsibility of exercising due diligence to ensure that its vessels were seaworthy at the time of sailing.

- The Company did not insist upon the timely submission of the list of crew on board the OSVs and countersigned the same without verifying the credentials of the crew on board the vessels.

- The Company also did not verify possession of an interim SMC by the operators which led to suspension of operations by the DGS. In respect of the tenders for hiring of vessels, the bidders were required to submit the SMC within 10 days from the date of notification of award of the contract. The Company failed to incorporate a similar condition in the O&M contract for the owned OSVs.

- Though the Director (Offshore) had desired in June 2006 that a mechanism be developed for monitoring the health of the owned OSVs, the Company finalised the contract for Third party inspection only in August 2008. Timely action would have prevented the suspension of operations by the DGS.

Thus, failure of the Company to effectively oversee the operations of OSVs by the O&M operators resulted in suspension of operations and consequent rig idling expenditure of Rs.576.29 crore on account of non availability of OSVs.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

13.5.3 Loss due to non recovery of terminal charges from Oil Marketing Companies

Failure to bill terminal charges to oil marketing companies despite incurring a corresponding cost incidental to supply of LPG to them resulted in a loss of Rs.78.50 crore to the Company.

In view of the proposed dismantling of the administered price mechanism from 1 April 2002, a Memorandum of Understanding (MOU) on sharing of LPG[1], infrastructure and facilities was signed on 31 March 2002 between Oil and Natural Gas Corporation Limited (Company) as 'seller' and Oil Marketing Companies (OMCs[2]) singularly or collectively as 'buyer' under the direction of the Ministry of Petroleum and Natural Gas (Ministry). As per the MOU, supply of LPG by the Company and distribution thereof amongst OMCs was to be decided in the monthly industrial logistic plan meetings. The Company was to supply LPG from its Uran Plant directly to all the OMCs. As per the minutes of the meeting (March 2002) held by the Ministry, terminal charges[3] were payable to the seller in addition to the import parity price (IPP) of the LPG. The MOU stated that the terminal charges would be governed by the directives of the Government of India.

Based on the MOU, the Company supplied LPG to the OMCs. However, as the Company was not having its own facilities for handling, storage and operations for transportation of LPG to OMCs at Uran, it had hired the terminal facilities of BPCL under a 'safe keeping agreement' since April 2002. The safe keeping agreement also provide for payment of terminal charges by the Company as per the directives of the Ministry.

Audit observed (April 2007) that as per the minutes of the meeting held by the Ministry in March 2002, the terminal charges were to be recovered by the Company from the buyers of LPG over and above the IPP. Without resolving the matter in consultation with the Ministry regarding terminal charges to be billed by the Company to the OMCs under the MOU, the Company billed the OMCs on the basis of IPP price which did not include terminal charges. While HPCL and IOCL remitted the amount as per the invoices, BPCL deducted Rs.210 per Metric Ton (MT) towards terminal services provided by it under the 'safe keeping agreement'. Thus, though the Company was incurring terminal charges of approximately Rs.10 crore per annum at the rate of Rs.210 per MT, it failed to bill the same to the OMCs. From 2002-03 to 2009-10 (upto August 2009) the Company had suffered a loss of Rs.78.50 crore by incurring expenditure on hiring of the facilities without recovering the same from the OMCs.

The Management in its reply (June 2007) did not offer any comments on its failure to approach the Ministry for directives on the terminal charges to be recovered from OMCs soon after entering into an MOU in March 2002. However, based on the audit observation, the Ministry convened (November 2007) a meeting of all the oil companies and advised the Company and BPCL to enter into an appropriate commercial arrangement for hiring/leasing of BPCL facilities at Uran Plant, negotiate the rates for terminal charges and recover the same from the OMCs including BPCL for the use of

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[1] Liquified Petroleum Gas

[2] Bharat Petroleum Corporation Limited (BPCL), Hindustan Petroleum Corporation Limited (HPCL) and Indian Oil Corporation Limited (IOCL)

[3] Charges for receipt, storage, loading and handling of LPG

hired/leased facilities. As the Company was yet to resolve the issue despite lapse of two years, the matter was again referred to the Management/Ministry (September 2009).

The Management stated (December 2009) that:

- The terminal charges in the safe keeping agreement are inter linked to the terminal charges to be reimbursed by the OMCs and that the Management was taking steps with all concerned for early resolution of the matter so that the charges are recovered from the OMCs at the earliest.

- OMCs continued to maintain that terminal charges were payable to refineries and not to the fractionators[♠].

Reply of the Management is not convincing since:

- The Company failed to resolve the matter in consultation with the Ministry on the terminal charges to be recovered from OMCs from April 2002 onwards. Advice of the Ministry to the Company and the OMCs, at the instance of audit, did not yield any results as no agreement as per the Ministry's advice had been entered into so far (December 2009). The Company had suffered loss of Rs.60.26 crore from April 2002 to November 2007. Even after the advice by the Ministry, the Company suffered further loss of Rs.18.24 crore from December 2007 to August 2009.

- The MOU and the directive of the Ministry of March 2002 did not specify that terminal charges were not recoverable by fractionators/the Company. It was logical that the cost incurred by the Company towards usage of BPCL's terminal facilities for supply of LPG to the OMCs (including BPCL) should have been billed to the buyers (OMCs) in addition to IPP.

The matter was reported to the Ministry in September 2009 again, their reply was awaited (November 2009).

13.5.4 Extra expenditure due to re-tendering

Incorrect cost estimation and consequent decision to go in for re-tendering resulted in an extra expenditure of Rs.35.42 crore.

Oil and Natural Gas Corporation Limited (Company) invited (May 2007) a limited tender for acquisition of 81,822 line kilometres (LKM) of 2D seismic data and onboard processing in the Krishna Godavari and Cauvery offshore areas during the field seasons 2007-08 and 2008-09. The Company prepared (May 2007) the cost estimate at US$60.51 million based on budgetary quotes received from five parties. The Company received three offers. The offer of L1 bidder was at US$94.99 million. On finding the L1 offer

[♠] ***Includes Unit/plants of the Company*** higher than the cost estimates by 57 *per cent*, the tender committee (TC) of the Company held (August 2007) negotiations with L1 bidder who offered a discount of 3 *per cent* and also intimated (28 August 2007) that its offer would be valid till 7 September 2007.

Due to the urgency of work, TC decided to accept the offer and asked (7 September 2007) L1 bidder to extend the validity of the offer upto 6 October 2007 which was not accepted by the bidder who however, informed that its original offer, i.e., without discount, was valid upto 6 October 2007 as stipulated in the bid. The TC inferred that the bidder might not mobilise the vessel by the stipulated date (15 November 2007) and, therefore, decided (September 2007) to cancel the tender and re-invite the tender after distributing the volume of work into two sectors to ensure larger participation and competition.

Accordingly, the Company invited (October 2007) limited tenders with the volume of work distributed into two sectors[♣] for data acquisition and on-board processing during the field seasons 2007-08 and 2008-09. Out of four bids received, the offer of SeaBird Exploration (SeaBird) was L-1 at US$45.32 million for Sector I and US$59.77 million for Sector II. Although the quoted rates were higher than the initial estimates of US$60.51 million (May 2007), the TC submitted the case to the Executive Purchase Committee (EPC) recommending award of contract to SeaBird for both sectors considering the market trend, steep increase in crude oil price and scarcity of vessels in the world market. On the suggestion of EPC, the TC held (December 2007) negotiations with SeaBird who, however, refused to offer any discount. Considering the urgency of the work and no guarantee of reduction in prices after re-tendering, the Company awarded the contract to SeaBird for Sector I and II at a total cost of US$104.91 million.

Audit observed (October 2008) that as the last purchase rate was two years old the Company had called for budgetary quotes from five parties. The cost estimates prepared were based on the lowest quote, i.e., US$60.51 million although there were wide variations in the budgetary quotes ranging from 6.5 to 75 *per cent* with reference to the lowest quote. Hence, the rationale of the Company in taking the L1 budgetary quote to be the cost estimate does not appear to be reasonable. The fact that the party (GSI) whose budgetary quote was L1, and was taken to be the basis for the cost estimate, did not participate in the tendering process itself. This indicated that the said party did not submit a realistic budgetary quotation. The said party (GSI) also did not participate even in the re-invited tender which was further reflective of its credibility vis-à-vis the tendering process. The Company had, however, assessed the rates received in the tender based on the budgetary quote of GSI which were found to be unrealistic and, hence, not comparable.

Due to incorrect cost estimation, the Company cancelled and re-invited the tender. As a result of difference of US$10 million in the quotes between the two tenders of May 2007 and October 2007, the Company had to incur an extra expenditure of Rs.35.42 crore.

[♣] ***Sector I –35262 LKM and Sector II–46560 LKM***

The Management stated (May 2009) that:

- Based on the data available at that time the budgetary quotes of GSI were considered reasonable and, hence, need for reassessing was not felt;
- It was expected that the Letter of Award (LOA) would be issued before the bid validity of 6 October 2007 had L1 bidder of May 2007 tender extended the bid validity of the revised offer. Though the tender document mentioned 60 days for MOD clearance, generally the clearance was given in 30-45 days; and
- The Company had been awarding seismic acquisition contracts for three decades and possessed fair knowledge of rate variation and estimates thereof and, hence, no need was felt for a consultant.

The reply of the Management is not satisfactory on account of the following:

- The Company did not assess the reasonableness of the budgetary quote of GSI and had directly taken the same for estimating the cost. As GSI did not participate in the original tender, the Company should have exercised greater caution before firming up the cost estimates on the basis of the lowest budgetary quote received from GSI. The EPC also observed (December 2007) that the cost estimates were unrealistic since the rates quoted against both the tenders were quite high.
- The Company stipulated the mobilisation period of the vessels as 15 November 2007 with expected date of LOA in October 2007, although the minimum time required for clearance by the Ministry of Defence was 60 days. A test check of six tenders[♣] invited during May 2005 and June 2008 also revealed that the Company had stipulated 60 days for mobilisation. The L1 bidder party of May 2007 tender had accordingly requested for placement of LOA by 7 September 2007. However, the Company asked that bidder for an extension on 7 September 2007 itself.
- A test check of the six tenders ibid also revealed that the Company had estimated the cost either by escalating the last purchase price ranging from 5 to 20 *per cent* or by inviting budgetary quotes. Consequently, there were variations ranging from (+) 8.5 to 167.7 *per cent* in five tenders and (-) 29 to 43 *per cent* in one tender in the cost estimates. Despite finding the offers higher than the cost estimates even after re-inviting the tender, the Company had justified acceptance of the offers citing reasons such as non availability of the vessels, increasing trend in market price etc., which was indicative of *adhocism* in the preparation of cost estimates.
- The Company was unable to prepare the cost estimates on its own and had to rely on the budgetary quotes given by outside parties. The budgetary quotes of those parties were not found comparable with the offers received in the tendering process. Hence, vetting of the cost estimates by a consultant on the pattern adopted by the Engineering Services of the Company would have made possible the estimation of the cost as per the rates prevailing in the international market.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

[♣] ***Tender Nos. LT/99/EB 2088, EB 2094, EB 2105, 2136 P96DL 07004, 2134 P96DL 07002 and PL/LT-805***

13.5.5 Extra expenditure due to incorrect cost estimation and consequent re-tendering

Incorrect cost estimates by ONGC and failure to engage a consultant for vetting of the estimates resulted in re-tendering and consequent extra expenditure of Rs.15.49 crore due to cost escalation.

Oil and Natural Gas Corporation Limited (Company) invited (May 2007) a global tender for installation of a bridge between two offshore platforms (MNW and BHF) for providing support services at the standalone platform NA on removal of the rig Sagar Samrat[♣]. Engineering Services of the Company had estimated (June 2007) the cost of the works at US$21.914 million. The Company opened (August 2007) the price bids and found that the price of the L1 bidder, after negotiations, was US$36.340 million, as against the cost estimate of US$21.914 million. On finding that the rates were not comparable, the Company decided (November 2007) to close the tender and to re-invite the same. The Executive Purchase Committee (EPC), keeping in view that in-house estimates were not being drawn accurately, recommended (July 2005) that Engineering Services, Mumbai should engage a consultant for vetting of the cost estimates for all its upcoming projects. This was reiterated in the Virtual Corporate Board Meeting held in August 2006, while approving amendments to the cost estimate methodology.

The Company re-invited (December 2007) the tender and subsequently, after vetting by a consultant, prepared (April 2008) revised cost estimates at US$40.50 million. On opening the price bids, the rates (US$40.59 million) were found comparable with the revised estimates and the Company awarded the contract (May 2008) to the L1 party at the negotiated cost of US$40.187 million. The difference in the cost of the closed tender and that awarded in May 2008 was Rs.15.49 crore.

Scrutiny in Audit revealed the following:

- As per the cost estimate methodology (August 2006), the rates of the material and fabrication cost were to be updated periodically. The cost estimates of June 2007 were, however, incorrect with regard to the installation barge, steel and fabrication cost. As per the two recently awarded contracts (Heera project-January 2007) and (NQ project- June 2007) the rate of 2,000 ton capacity installation barge was US$320,000 and US$395,000 respectively. The Company, however, considered (June 2007) the day rate of the installation barge as US$175,000 for 1,000 ton capacity even though deployment of 1,000 ton capacity barge was not economical for small projects. The variance in cost estimates on this account was to the extent of US$3.72 million.
- Similarly, as against the estimated (June 2007) cost of material and fabrication of US$7.53 million, the rate quoted by L1 bidder was US$12.01 million, i.e., a difference of US$4.48 million (Rs.18.30 crore). Thus, the estimates of the Company were not correct.

[♣] ***The BHN Process Platform was lost in a fire incident in July 2005. The BHF platform which was adjacent to BHN platform was also damaged in the fire. BHF platform was located between MNW (constructed under Mumbai High North Redevelopment plan) and NA platforms. Jack-Up Rig 'Sagar Samrat' was deployed at NA platform for providing support and utility services after the loss of BHN platform. As this rig was to be moved from NA platform for its conversion to a mobile offshore production unit, laying of a bridge between MNW and BHF was proposed to facilitate provision of support facilities from MNW to NA platform which was already connected by a bridge to BHF.***

- The in-house estimates for Heera and B-193 project were got vetted by a consultant in November 2006 and December 2007 respectively. The Company, however, failed to do the same for the tender invited in May 2007 for construction of the bridge. The Company subsequently got the estimates for the re-invited tender of December 2007 vetted through a consultant. On the suggestion of the consultant, the estimates were revised to US$40.50 million which were found comparable with the quotes received.

- The rates of installation barges increased from US$395,000 per day in June 2007 to US$440,000 in March 2008 i.e., a total increase of US$450,000 (Rs.1.81 crore) and that of steel and fabrication rates had increased from US$14,063 to US$14,845 per ton i.e., an increase of US$3,068,752 (Rs.12.37 crore) for 1426 tons. This resulted in a higher quote by US$4.25 million in the re-invited tender as compared to the earlier tender of May 2007 and consequent extra expenditure of Rs.15.49 crore to the Company.

The Management stated (April 2009) that:

- The estimates were prepared considering the barge capacity of 1,000 ton as the single largest weight required to be lifted was not more than 600 ton. However, for the revised estimates the consultant conveyed that availability of 1,000 ton capacity barge for small duration may not be practicable.

- For the barge, being the main component of cost, the rates were taken from an external agency whereas the project cost being low, mainly the estimates were got vetted internally.

- Vetting of cost by an external consultant would not have changed the estimate substantially and, hence, was not required.

Reply of the Management is not convincing on account of the following:

- The installation barge comprised only one of the elements of the cost estimation. Moreover, as deployment of barges with a capacity of 1,000 ton was not economical for projects of small duration, ascertaining the rates for such barges was ill-considered. The Company had also not specified the requirement of 1,000 ton capacity barge in the tender documents. In the finally awarded contract, the contractor offered barges of 2,000 ton capacity as well as less than 1,000 ton capacity at the same rates. This was accepted by the Company.

- The cost estimates prepared by the Company in June 2007 in respect of steel and fabrication cost were not based on the then prevailing rates and, hence, the rates received varied by approximately 60 *per cent* leading to decision for re-tendering.

- Notwithstanding the low cost of the project, the Company had got the cost estimates for the re-invited tender vetted by the consultant and revised the estimates from US$31.42 million to US$40.50 million. These were found comparable with the quotes received i.e., US$40.59 million.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

13.5.6 Avoidable payment of hiring charges

Delay in finalising the contract by the Company for revamping of own compressors resulted in hiring of compressors and consequent payment of hiring charges of Rs.8.14 crore.

Oil and Natural Gas Corporation Limited (Company) was using gas lift as one of the modes of artificial lift for oil production in Mehsana Asset for which it was required to inject about four lakh cubic meter (M^3) of compressed gas into the gas lift wells. The requirement of two lakh M^3 of compressed gas was being met by the Company through hired compressors, for which a contract valid upto July 2007 had been entered into with an Ahmedabad based private party in July 2004. For meeting the requirement of the balance two lakh M^3 of gas per day, the Company decided to modify three of its idle air compressors into gas compressors. The proposal was approved in August 2005 and the job awarded (August 2005) to the Original Equipment Manufacturer (OEM) viz. Dresser Rand (India) Private Limited on nomination basis. In June 2006, the Company moved another proposal for modification of additional three air compressors into gas compressors which was envisaged to be completed before expiry of the existing hiring contract i.e., by July 2007. The contract was, however, awarded in December 2007 with scheduled date of completion by October 2008. Meanwhile, the Company continued with the hiring contract extended in July 2007.

Audit observed (February 2008) that while the administrative approval for modification of the second batch of compressors was obtained on 1 July 2006, the Company took more than three months (16 October 2006) to constitute a Committee for obtaining expenditure sanction and finalisation of Request for Quotation (RFQ). The Committee submitted the case for expenditure sanction in February 2007 which was approved by the Director (Onshore) stating that the conversion of compressors be taken up only after assessment of sustainable service and benefit of first three compressors. The Company submitted the performance report in July 2007. Thereafter, other activities like calling for RFQ/tender, technical assessment of offer, obtaining of approval of Director (Onshore) and Executive Committee were carried out during August and November 2007. The contract was finally awarded to the OEM only in December 2007 i.e., after 18 months from date of initiating the proposal.

Thus, due to delay in awarding of the contract, the second batch of modified gas compressors could be made available only in October 2008. Consequently, the contract with the private party for hiring of compressors had to be re-entered into for the period from July 2007 to October 2008 which led to avoidable payment of hiring charges of Rs.8.14 crore[♠].

The Management in reply (June 2008) stated that:

- Initially there were failures/breakdowns in the compressors modified in the first batch which required repairs.

[♠] ***Hiring charges for compressors for the period from August 2007 to October 2008 = Rs 9.38 crore less operation and maintenance charges (Rs.1.24 crore) of modified compressors.***

- The delay was on account of exploring better options, assessment of sustainable service and benefit of the first three air compressors after their conversion into gas compressors.

The reply is not convincing in view of the following:

- The total running hours (May 2006 to May 2007) of the three compressors modified in the first batch were 18843.32 hours as against the available 19008 hours i.e., shortfall of only one *per cent*. This was on account of liquid carry over in the third compressor and not because of any defect in modification.

- The contract for the first batch of conversion of air compressors into gas compressors was placed (30 August 2005) on the OEM by taking less than a month's time from the date (10 August 2005) of administrative approval. Whereas, in the second batch of conversion of compressors, as against the envisaged time of two months, the Company took 18 months in finalising the contract on the same party i.e., the OEM.

The reply does not address the delay of three months (July 2006 to October 2006) after administrative approval in setting up the committee for obtaining expenditure sanction and finalisation of RFQ despite the instructions (July 2006) of the Executive Director-Asset Manager to fulfill the actions on a fast track.

Further, the Committee, set up in October 2006, submitted the case for expenditure sanction only in February 2007 i.e., after four months despite the Executive Director-Asset Manager reiterating (October 2006) that since considerable time had already been lost further action be taken on a fast track. This delay has also not been addressed in the reply.

The Director (Onshore) while approving the proposal had directed (February 2007) to assess the performance over a sustainable period. However, by this time the compressors were running successfully for over 10 months.

At the time of proposing the first batch of conversion of air compressors, the Company had already made a cost benefit analysis of hiring of compressors versus owning and conversion of compressors and had concluded that it was much cheaper to convert the idle air compressors.

The matter was reported to the Ministry in June 2009; their reply was awaited (November 2009).

GAIL (India) Limited, Indian Oil Corporation Limited and ONGC Videsh Limited

13.6.1 Short recovery of house rent

Three central public sector undertakings short recovered rent from employees provided with leased/self-leased accommodation in violation of DPE guidelines resulting in extra expenditure of Rs.68.70 crore.

Department of Public Enterprises (DPE) issued guidelines (June 1990) fixing the ceiling for leased/self-leased accommodation provided by the Public Sector Enterprises (PSEs) to its executives and recovery of rent at the rate of 10 *per cent* of the basic pay. On revision of pay scales with effect from 1 January 1997, DPE provided (June 1999) that the rent recovery on leased accommodation would be computed on revised basic pay at the percentages in practice before 1 January 1997 or on the basis of standard rent to be fixed by the Company. In October 2003, DPE clarified that in all cases where company provides leased accommodation or even allows self leased accommodation to its executives, the Board of Directors must fix the plinth area and ceiling in terms of values which such area might attract keeping in view the categories of the cities.

Audit observed that in violation of the aforesaid guidelines of DPE, three PSUs viz. GAIL (India) Limited, Indian Oil Corporation Limited (IOCL) and ONGC Videsh Limited had been recovering rent since August 1991 on slab rates depending upon the pay scales of the executives which were far below 10 *per cent* of basic pay resulting in short recovery of rent amounting to Rs.68.70 crore during the last three years period ending March 2009, as detailed below:-

Sl. No	Name of the PSU	Amount of short recovery (Rs. in crore)
1.	Indian Oil Corporation Limited	66.10
2.	GAIL (India) Limited	2.40
3.	ONGC Videsh Limited	0.20
Total		**68.70**

The Management of GAIL (India) Limited did not furnish any reply while the Management of IOCL and ONGC Videsh Limited stated the following:-

- The Ministry of Petroleum and Natural Gas conveyed (June 1991) that rent recovery would be made at 10 *per cent* of revised basic pay or standard rent, which ever is lower.

- The principle of rent recovery on fixed rates had been adopted within the flexibility provided by the DPE guidelines of June 1999.

In respect of IOCL, the Ministry in its reply stated (August 2009) that as per DPE guidelines dated 4 April 1990, rent recovery, in respect of housing accommodation provided by the PSE from executives was to be made at the rate of 10 *per cent* of the revised basic pay or standard rent, whichever was lower and it approved the same in case of accommodation provided by IOCL to its employees.

The replies are not convincing in view of the following:-

- The standard rent was applicable in respect of township accommodation only while the Company fixed slab rates for recovery in respect of leased accommodation, which was against the spirit of the DPE instructions. This is further corroborated by the fact that when a reference was made by Audit, DPE clarified (November 2009) that in case of accommodation provided on lease basis, rent would be recovered at the rate of 10 *per cent* of revised basic pay, and confirmed that audit observation was fully justified.

- The flexibility provided in DPE guidelines of June 1999 was with reference to fixation of entitlements for executive's leased accommodation depending on classification of city and not for recovery of rent, which had not been complied with by the Management.

Thus, GAIL (India) Limited, IOCL and ONGC Videsh Limited short recovered rent from the employees provided with leased/self-leased accommodation in violation of DPE guidelines resulting in extra expenditure of Rs.68.70 crore.

CHAPTER XIV: MINISTRY OF POWER

NHPC Limited

14.1.1 Avoidable expenditure on preparation of Detailed Project Report of an unviable Project

The Company incurred Rs.8.29 crore on repeated feasibility studies of an unviable Project including avoidable expenditure of Rs.5.03 crore on preparation of DPR.

Government of India, Ministry of Power entrusted (May 2001) NHPC Limited (Company), the work of survey and investigation of Bav Hydro Electric Project stage II, in Konkan region of Maharashtra. The Company conducted the feasibility studies for the Project as detailed below:

- In July 2002 it submitted the Feasibility Report (FR) of the Project for 50 MW (2x25 MW) at a levellised tariff of Rs.7.34 per unit to Central Electricity Authority (CEA) for financial concurrence. CEA considered the per unit cost very high and advised for review of the Project to bring down the cost to a reasonable level.

- In April 2003, the Company again submitted a revised FR of the Project with the same installed capacity at a levellised tariff of Rs.5.59 per unit which was also not found (May 2003) commercially viable.

- In January 2004 the Company scaled down the capacity of the Project to 20 MW and submitted the FR with the levellised tariff of Rs.3.65 per unit. CEA considered the project as viable but made it clear that the viability was based solely on the inputs of cost and energy estimates prepared and submitted by the Company. It also cautioned that in case the project was not found commercially viable again on the basis of the Detailed Project Report (DPR) prepared by the project authorities, the entire expenditure incurred would become infructuous.

- In March 2006 the Company submitted DPR to CEA at the levellised tariff of Rs.6.53 per unit. CEA felt that the levellised tariff was very high making the Project commercially unviable.

Subsequently, the Company approached the Maharashtra State Government (June 2006 and August 2006) for purchasing the power to which the State Government did not agree (August 2006) stating that as per Maharashtra State Regulatory Commission Guidelines, the tariff for the Project below 25 MW had already been determined at Rs.2.84 per unit with annual increase by Rs.0.03 per unit till the 10th year.

The Board of Directors (BOD) of the Company ultimately decided (May 2007) to close the Project after incurring an expenditure of Rs.8.29 crore on various feasibility studies and preparation of Detailed Project Report.

Audit observed that:

- The Company continued to incur expenditure on investigations and studies on the Project that was commercially unviable *ab-initio*.

- The State Government intimated in March 2004 that tariff should be maintained at or below Rs.2.75 per KWH. The Company, however, went ahead and prepared a DPR in April 2006 incurring a cost of Rs.5.03 crore.

- While conducting the feasibility of the 2X10 MW Project, the Company did not exercise due diligence with regard to the various cost elements, resulting in increase in the cost between FR (Rs.97.78 crore) and DPR (Rs.167.04 crore) on account of the following:

  (a) The status of the land was not ascertained properly and the land which was assessed to be forest/state land was actually a private land (Rs.7.02 crore).

  (b) Gated spillway structure and consequential increase of other items of work was not envisaged in FR (Rs.7.16 crore).

  (c) Height of the Dam was envisaged 27 m in FR against the DPR provision of 36 m (Rs.15.39 crore).

Had the Company exercised due diligence while conducting the feasibility study, it could have avoided an expenditure of Rs.5.03 crore spent on preparation of DPR of an unviable project.

The Management in their reply (April 2009) contended that the power tariff was to be determined by the Central Electricity Regulatory Commission and Maharashtra Electricity Regulatory Commission had no role to play in the tariff fixation.

The reply of the Management is not convincing as the Government of Maharashtra was the sole beneficiary of the project and the Company decided (May 2007) to close the Project because the Government of Maharashtra was not willing to purchase power at a higher price. The Company was already aware of this fact before taking up the work of preparation of DPR.

Thus, repeated studies on a project, which was commercially unviable *ab-initio*, resulted in wasteful expenditure of Rs.8.29 crore. Further, the Company could have avoided an expenditure of Rs.5.03 crore on preparation of DPR if it had taken due care.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

NTPC Limited

14.2.1 Wrongful retention of interest earned on the funds of beneficiaries

The Company did not pass on the benefit of interest income of Rs.16.58 crore earned by it on the funds of beneficiaries withheld by it.

As per the Central Electricity Regulatory Commission (Terms and Conditions of Tariff) Regulations, 2004 (Regulation), Tariff for sale of electricity from thermal power generating stations *inter-alia* consists of energy (variable) charges which include the landed cost of coal, royalty, taxes and duties as applicable. Accordingly, any taxes and duties payable by a Generating company to the coal suppliers are recoverable from the beneficiaries as part of tariff.

The power plants of the NTPC Limited (Company) located at Rihand, Vindhyachal and Singrauli meet their coal requirement from the mines of Northern Coalfields Limited (NCL) located in Madhya Pradesh. In March 2005, the Government of Madhya Pradesh notified Madhya Pradesh Gramin Avsanrachna Tatha Sadak Vikas Adhiniyam 2005 (Act) whereby the Coal Companies, with effect from September 2005, were required to pay five *per cent* tax to the State Government on the value of coal sold. Accordingly, NCL preferred (April 2006) a claim of Rs.69.88 crore on the Company for the period 30 September 2005 to 31 March 2006 and thereafter till March 2008 through monthly invoices for coal supplied. Meanwhile, High Court, Jabalpur on a petition filed by the NCL on the legality and validity of the tax, passed an order (April 2006) directing the Government of Madhya Pradesh not to take any coercive measures to recover this tax and also not to impose any penalty for non-payment of tax.

Taking this into account, the Company did not pay the subject tax to the NCL. It, however, continued to recover the same from the beneficiaries (State Electricity Boards and other power purchasers) as a part of fuel cost which accumulated to Rs.384.47 crore till March 2008.

Audit observed that, the Company ultimately credited the amount recovered in the accounts of the beneficiaries in June 2008 but did not pass on the interest income of Rs.16.58 crore♠ earned thereon for two years to the beneficiaries.

The Management stated (April 2009) that imposition of tax had not been stayed and only its coercive collection was stayed by the Court. Therefore, to protect the interest of its beneficiaries, the amount of tax billed by NCL was withheld and was credited to beneficiaries on subsequent development.

However, the Company only credited the amount of tax recovered and not the interest of Rs.16.58 crore earned by it thereon. As this amount was used by it, the interest thereon was also required to be credited to the beneficiaries.

Thus, the beneficiaries were deprived of the interest of Rs.16.58 crore on the amount collected from them and withheld by the Company. The Company should pass on the

♠ ***Minimum rate of interest of 3.5 per cent on investments in bank*** interest earned by it to the beneficiaries (State Electricity Boards and other power purchasers).

The matter was reported to the Ministry in August 2009; their reply was awaited (November 2009).

Power Grid Corporation of India Limited

14.3.1 Changes in terms and conditions after opening of bids

Transparency of the bidding process was compromised by the Company/Ministry by changing bid conditions from Build Own Operate Transfer (BOOT) to Build Own Operate (BOO) in two projects after opening of bids.

Power Grid Corporation of India Limited (Company) decided to execute the following two transmission projects through private sector participation on Build, Own, Operate and Transfer (BOOT) basis:

- Part of transmission system for Parbati-II & Koldam hydro project (Project 1) by forming a Joint Venture Company (JVC), and

- Projects B and C of Western Region System Strengthening Scheme-II (Project 2) by selecting Independent Private Transmission Company (IPTC).

Bids for Projects 1 and 2 were invited in February 2004 and November 2005 through international competitive bidding. In case of Project 1 the transmission service charges as determined by Central Electricity Regulatory Commission were to be paid for operation and maintenance of the lines to the JVC formed with the successful bidder. The bidding terms provided for buy out during the implementation and operation as well as at the end of the licence period of 25 years at the price formula defined in the draft agreement. Reliance Energy Limited (REL) was adjudged (September 2004) as successful bidder for Project 1 based on the technical, financial and managerial criteria fixed by the Company and letter of selection was also issued to them in December 2005.

In case of Project 2 the bidders were required to quote the Annual Transmission Service charges and buy out price for the Company at the end of the licence period of 25 years. The bidding conditions also provided for the buyout during the licence period as per the price formula fixed in the draft agreement. The bidder with lowest sum of NPVs of the annual transmission service charges and the discounted buy out price was to be awarded the project. Reliance Energy Transmission Limited (RETL) emerged (November 2006) as the lowest bidder.

Meanwhile, the Government of India issued (January 2006) guidelines for Public Private Partnership (PPP) projects which required clearance of Public Private Partnership Appraisal Committee (PPPAC) for PPP projects with capital costs exceeding Rs.100 crore. On enquiry by the Company regarding applicability of these guidelines to the power sector transmission projects, Ministry of Finance clarified (Jan 2007) that clearance by PPPAC was necessary if the projects entailed any contingent liability on the company by way of buy-out, etc.

Against this background, Ministry of Power constituted (May 2007) an in-house committee headed by Shri A.K. Khurana, Additional Secretary to look into various aspects of competitive bidding for transmission projects. The Khurana Committee suggested (May 2007) deletion of buy-out provisions (during construction and operation period).

Subsequently, in a meeting taken by Secretary (Power) (6 August 2007), it was decided that if the bidder agreed to the deletion of the buyout provisions, the case may not require PPPAC approval. Re-tendering was also not considered necessary as deletion of buy-out provisions was seen as hardening of contract conditions for the bidders. Accordingly, the Ministry requested the Company to hold discussion with the bidders in the light of the recommendations of the Khurana Committee. The negotiations were held by the Company with the bidders on 29 August 2007 wherein it was agreed to change the project model from BOOT to BOO without any change in bid price.

Audit observed that the bidding process was vitiated on account of change of bid conditions after opening of the financial bids/selection of JV partner. Though the Khurana Committee did not recommend deletion of buy-out provision at the end of the licence period, this was done by the Company by changing the projects from BOOT model to BOO model by negotiating with RETL/REL after opening the bids.

The Ministry mainly contended (December 2008 and August 2009) that:

- Buy-out was deleted in line with the intent of the Khurana Committee report.
- Since no relaxation from the notified conditions was made and removal of buy-out provisions was only a hardening of the contract conditions, re-tendering was not considered. Complete transparency was maintained by the Company as a Bid Coordinator under the direction of CERC.
- Under BOOT model, the Company would have been required to include a contingent liability to the tune of Rs.1275 crore in the financial statements towards transfer of asset in the event of default at a later date.
- By not going in for retendering and making the L1 bidder accept BOO conditions at its quoted price, the benefit of extremely competitive price, which is in the interest of power utilities and public at large, had been retained.

The reply is not convincing as:

- The Khurana Committee recommended deletion of buyout provision only during construction and operation period and not at the end of the license period. The decision to delete the buy-out condition at the end of the licence period was taken by Ministry/Company. Thus, there was no such intent of Khurana committee.

- Changing the project from BOOT model to BOO model after opening of the bids was a significant change in the bidding conditions and compromised on the transparency of the bidding process. It was not a hardening of conditions because it also conferred permanent ownership of assets to the bidder/JVC at the expiry of the licence period.

- Invitation of bids on BOO basis could have led to wider participation in the bidding process in view of prospect of retention of perpetual ownership of assets with the successful bidder and the possibility of the Company getting a better price.

Thus, by changing the bidding terms after opening of bids the transparency of the bidding process was compromised. It is recommended that the tender terms and conditions should not be changed after opening of the bids so as to maintain transparency.

CHAPTER XV: DEPARTMENT OF PUBLIC ENTERPRISES

Airports Authority of India, Bharat Heavy Electricals Limited, Bharat Sanchar Nigam Limited, Eastern Coalfields Limited, Food Corporation of India, Goa Shipyard Limited, National Aviation Company Limited, Narmada Hydroelectric Development Corporation Limited, National Insurance Company Limited, National Minerals Development Corporation, National Textiles Corporation Limited, The New India Assurance Company Limited, The Oriental Insurance Company Limited and United India Insurance Company Limited

15.1.1 Recoveries at the instance of Audit

During test check, several cases relating to non-recovery, short recovery, loss in purchase due to poor planning, excess payment/expenditure, excess refund etc. by central public sector undertakings (PSUs) were pointed out. In 30 such cases pertaining to 14 PSUs, Audit pointed out that an amount of Rs.63.15 crore was due for recovery. The Management of PSUs had recovered an amount of Rs.47.11 crore during the year 2008-09 as detailed in ***Appendix-I.***

15.1.2 Corrections/rectifications at the instance of Audit

Bisra Stone Lime Company Limited, Bharat Heavy Electricals Limited, Oil and Natural Gas Corporation Limited, Rashtriya Ispat Nigam Limited, UTI Trustee Company Private Limited

During test check, cases relating to deficiencies in the systems, policies, procedures etc., were observed and brought to the notice of the Management. Details of cases where the changes were made by the Management of the PSUs in their policies/procedures at the instance of audit are given in ***Appendix-II***.

CHAPTER XVI: MINISTRY OF RAILWAYS

Container Corporation of India Limited

16.1.1 Injudicious decision to take up an unprofitable business

The Company suffered a loss of Rs.30.37 crore by venturing into a cold chain business without requisite expertise and without mitigating perceived risks.

With a view to explore the possibility of expansion in the cold chain sector, Container Corporation of India Limited (Company) decided (March 2004) to enter into a Joint Venture and appointed consultants (SSKI Corporate Finance Private Limited (SSKI) and M/s. Deloitte Haskins & Sells) to assess the feasibility of the project. The Board of Directors (Board) noted (December 2004) that against the required return of 28 to 30 *per cent* on the equity, the project was expected to give a return of only 19.2 to 21.9 *per cent*. The (BOD) was also apprised of the following risks associated with the project:

- The Company had no expertise in trading business whereas this project involved entering into sourcing agreements with farmers/cooperatives for fruits which was quite different from the Company's core competence *i.e.*, rail haulage and container terminal management.

- Absence of firm tie-ups with state governments for procurement, collection, transportation and safeguarding needs of farmers.

- The business was exposed to demand risk, price risk and cost risk.

- Dependence on apples and a failure of apple crop in a particular year could adversely affect the operations of the Company.

Accordingly, the Company decided (December 2004) to abandon the project.
Subsequently, on request (March/July 2005) of Government of Haryana and Ministry of Commerce (GOI) for reconsideration of the project in the interest of farmers and consumers of agro products, the Company reviewed its earlier decision and decided (July 2005) to revive the project. The Company got fresh studies conducted by SSKI to revalidate the financial viability, assessing the risk factors and suggesting risk mitigation mechanisms. The report submitted (October 2005) by SSKI envisaged dealing by the Company in apples and mangoes initially and estimated Project IRR[♣] and Equity IRR as 25.7 *per cent* and 33.3 *per cent*, respectively. The BOD approved the proposal (October 2005) and a new subsidiary company namely Fresh & Healthy Enterprises Limited (FHEL), wholly owned by the Company, was incorporated in February 2006. The Project was commissioned (2006-07) at Rai, Sonepat (Haryana) at a total cost of Rs.81 crore.

[♣] ***Internal rate of return***

Audit observed that the Company embarked on this venture without mitigating the risks which led the Company to abandon this Project earlier as detailed below:

- The Company did not identify a suitable joint venture partner to mitigate the risk of lack of expertise and entered into this business all by itself.
- FHEL was solely dependent on apples instead of apples and mangoes as per the project report of the consultant.
- The return on equity in the project report was based on the projected margins of Rs.25.80 per Kg. (approximately) on apples. However, the Company failed to achieve the desired margin and consequently suffered loss right from its inception.

The Management stated (February 2009) that:-

- The Project was taken up as it was an important business opportunity in one of the priority sectors. The project is a diversification into fresh produce logistics which benefits millions of farmers/farms workers and consumers.
- They were compelled to sell most of the fruits through traditional mandis using the auction mode which was dependent upon the trust and goodwill of marketing associates. The price of apple was also dependent upon a number of factors and could vary from day to day.
- The Company was making all efforts required to improve its performance as a result of which it is expected that during 2008-09 there would be significant improvement in its financial performance.

The Ministry furnished (October 2009) a similar reply.

In this regard, Audit observes that:

- The Company had assessed that they did not have adequate expertise in trading perishable commodities which was different from its core competence area *viz*. rail haulage and container terminal management. Therefore, the Company should have entered into the project only after properly mitigating this risk possibly by joining a joint venture with a partner having adequate expertise in this area.
- The reply indicates that the Company did not appropriately mitigate the market and price risks assessed by it.
- The Company has incurred loss of Rs.12.05 crore during 2008-2009 even after taking steps to improve performance.

The projections of IRR did not materialise and the Company suffered a loss of Rs.30.37 crore during the period 2006-07 to 2008-09.

Thus, by venturing into a new area without having the requisite expertise in the field and without adequately mitigating the perceived risks the Company suffered losses amounting to Rs.30.37 crore.

Indian Railway Catering and Tourism Corporation Limited

16.2.1 Loss due to deficiency in agreement

IRCTC would lose revenue of Rs.7.63 crore due to non-inclusion of clause in the agreements for proportionate increase in concession fee with the increase in the passenger carrying capacity of trains as a result of increase in number of coaches.

Indian Railway Catering and Tourism Corporation Limited (IRCTC) manages catering services on running trains through private entrepreneurs appointed by bidding process. The bidders are required to offer lump sum concession fee to IRCTC for the tenure of licence. This concession fee is based on the passenger carrying capacity of trains. The capacity can increase due to:

- Increase in the frequency of trains, and
- Increase in the number of coaches in the trains.

Logically, the lump sum concession fee receivable by IRCTC should increase with the increase in passenger carrying capacity. Therefore, the agreements between IRCTC and caterers provide for *pro-rata* increase in the concession fee on account of increase in the frequency of trains. However, the agreements do not provide for such a hike in case of increase in the number of coaches in the trains. The agreements, thus, are deficient to that extent and do not safeguard the financial interests of IRCTC in the event of increase in the number of coaches.

Audit observed that the Indian Railways increased passenger carrying capacity (ranging from 6 *per cent* to 80 *per cent*) of five Rajdhani and five Shatabdi trains[1] by adding coaches with effect from 26 May 2007. In the absence of an enabling clause, IRCTC could not raise the concession fee on this account and hence would suffer a loss of revenue of Rs.7.63 crore[2] by the end of these contracts.

The Ministry mainly contended (October 2009) the following:-

[1] Bangalore Rajdhani (Train No 2429-30), Trivandrum Rajdhani (Train No.2431-32), Secunderabad Rajdhani (Train No. 2437-38), Jammu Rajdhani (Train No 2425-26) and Chennai Rajdhani (Train No 2433-34) and Kalka Shatabdi (Train No 2011-12), Amritsar Shatabdi (Train No. 2013-14), Lucknow Shatabdi (Train No 2003-04), Kalka Shatabdi (Train No2005-06), Amritsar Shatabdi (Train No. 2029-32)

[2] Proportionate concession fee recoverable on the basis of enhanced passenger carrying capacity of the trains for the period from May 2007 to the end of the contract period (ranging from August 2010 to October 2012) in respect of 10 catering contracts covering five Rajdhani and five Shatabdi trains.

- The coaches are attached/detached according to the volume of passenger traffic.

- Attachments/detachments were not related to concession fee and the caterers are paid on the basis of actual occupancy of the trains. In the event of enhancement/reduction of capacity, the concession fee remains static as the agreement provides that "the train may run with fewer/more number of coaches, frequency and timings were subject to change in future". Therefore, bidders take such eventualities/fluctuations into consideration while bidding.

The contention of the Ministry is not convincing as the ground realities were different as explained below:

- The increase in number of coaches, effective from May 2007, was a long term arrangement to augment the train capacity and not a temporary/seasonal stop-gap arrangement.

- The agreement has a provision which requires the caterers to proportionately increase the concession fee if the frequency of trains increases. This implies that the concession fee quoted by the caterers was based on the existing capacity and if the capacity increases, they would accordingly be paying more. This was also logical considering the fact that increased capacity of passengers would bring them increased business. However, the agreement was deficient as it did not take into account the increase in passenger capacity by way of permanent increase in the number of coaches.

Thus, IRCTC would lose revenue of Rs.7.63 crore by the end of these contracts. As capacity enhancement through increase in number of coaches is not ruled out in future, it is recommended that IRCTC removes the existing deficiency in the agreement so that its financial interests get protected in future.

16.2.2 Loss of revenue due to imprudent renewal of licences

The Company would suffer a loss of revenue of Rs.5.96 crore due to renewal of catering licences at lower rates ignoring the receipt of higher rates through competitive bidding on the same/similar routes.

Indian Railway Catering and Tourism Corporation Limited (Company) provides catering and on board services on Indian Railway trains through various licencees appointed by bidding process.

The Catering Licensing Policy of the Company provided (March 2002) that the licence would normally be awarded for a period of five years to the highest bidder and was not renewable unless specifically provided in the agreement. The agreements entered into with the licencees provided for renewal of licence for further five years at the sole discretion of the Company. On renewal of licence, licence fee was to be increased on the basis of actual Sales Turnover subject to a minimum increase of 10 *per cent* of the prevailing licence fee.

Audit observed that though the Company had received a licence fee ranging from Rs.0.65 crore to Rs.1.11 crore for two trains on two routes[1] through competitive bidding (October 2005 and December 2006), it did not invite fresh bids for other two trains on the same/similar routes[2] after expiry of the term of their agreements and extended their agreements (April 2008 and June 2008) for another term by increasing licence fees nominally[3]. Consequently, the Company lost an opportunity to earn an additional revenue estimated at Rs.5.96 crore[4] by renewal of licences instead of calling fresh bids.

The Management stated (July 2009) that:

- At the time of framing policy guidelines, the then Board of Directors (BOD) of IRCTC was of the view that tenure of licences awarded as per Company's Catering Policy 2002 should be for 10 years.

- The agreement contained a one time renewal clause as part of terms and conditions.

The reply of the Management is not convincing as:

- There were no recorded minutes to support that the BOD was of the view that tenure of licences awarded should be 10 years.

- As per renewal clause, the licence could be renewed for another term of five years at the sole discretion of the Company. Therefore, the Company was under no obligation to renew the licences after expiry of five years particularly when the bidding yielded much higher revenue than renewal.

The Company would thus lose additional revenue estimated at Rs.5.96 crore over the five years term of the licences (commencing from February 2008 to June 2008). The Company should ensure that in future the licences are renewed only after considering the financial interests of the Company.

The matter was reported to the Ministry in August 2009; their reply was awaited (November 2009).

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[1] Pune-Howrah and Chennai-Coimbatore

[2] Pune-Howrah and Chennai-Coimbatore

[3] Rs.16.33 lakh to Rs.17.96 lakh for train No. 2129/30 and Rs.5.5. lakh to Rs.6.05 lakh for train No. 2679/80

[4] Difference in the licence fee obtained through competitive bids on similar/same routes and licence fees obtained through renewal of licences calculated over the five year term of the licences commencing from February 2008 to June 2008. The loss would be more if the seating capacity of the trains is considered because the seating capacity was higher in trains where the licences were renewed as compared to the trains where licences were awarded after competitive bidding.

CHAPTER XVII: DEPARTMENT OF ROAD TRANSPORT & HIGHWAYS

National Highways Authority of India

17.1.1 Loss of toll revenue due to setting up Toll Plaza at inappropriate location

National Highways Authority of India set up a toll plaza at inappropriate location which resulted in cumulative loss of toll revenue of Rs.5.37 crore upto 31 March 2009.

National Highways Authority of India (Authority) completed the work of four lanning and strengthening of an existing two lane section of NH-8 known as UG-III package (from km.[♣] 388.400 to km. 443.000) at Udaipur-Ratanpur-Gandhinagar stretch in January 2004. As this section was toll based, the Government of India issued a Gazette Notification on 23 June 2004 for the collection of toll. The Authority started collection of toll with effect from 9 July 2004. Toll collection point (toll plaza) on this section was located at km. 416.000 (Village Vadanta).

Audit observed (August 2006) that:

- There is a diversion on this stretch at km 399.000 (Shyamlaji) through a state highway and the toll plaza for UG-III package of NH-8 is located at km. 416.000, at a point after diversion.

- The road users who used the road for 10.600 km. (km. 388.400 to km. 399.000) stretch of UG-III package on the tolled National Highway got easily diverted without paying any toll.

As per the survey report of the Detailed Project Report consultant (December 2000), daily traffic movement at km. 399.000 (at diversion point) was only 58 *per cent* of the total Passenger Car Units (PCUs), while the balance 42 *per cent* of the total PCUs got diverted without payment of toll. Thus, 37,18,398 PCUs (42 *per cent* of the total PCUs 88,53,328 during the period July 2004 to March 2009) were estimated to have been diverted through state highway after using 10.600 km. of stretch without paying toll. This resulted in the loss of toll revenue to the extent of Rs.5.37 crore during the said period.

The Management stated (June 2008) that the traffic diverting at km. 399.000 is using small portion of this stretch without payment of user's fee.

The Management has accepted that some traffic diverting at km. 399.000 is using the road without payment of toll. Had the toll plaza on UG-III package been located at an

[♣] ***Km. - Kilometer***

appropriate location, i.e., just before the diversion point (km. 399.000), loss of toll revenue to the extent of Rs.5.37 crore (upto March 2009) could have been avoided.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

17.1.2 Loss on construction of a flyover in "No Construction Zone"

National Highways Authority of India incurred an infructuous expenditure of Rs.2.08 crore on the construction of a flyover in "No Construction Zone" at Jhansi, Uttar Pradesh.

National Highways Authority of India (Authority) awarded (September 2005) a contract for the construction of Jhansi Bypass (package East West – II, UP 3) at an estimated cost of Rs.115.24 crore on the basis of Detailed Project Report (DPR) prepared by the DPR Consultant. The construction of the flyover, which was the part of the project, commenced on 22 April 2006 and an amount of Rs.2.08 crore was spent on the part construction of the flyover upto March 2009.

Audit observed (April 2008) that the site of the flyover was located near Jhansi Airport and it lies in the "No Construction Zone" as notified vide Government of India, Ministry of Civil Aviation Notification No. SO988 dated 5 January 1988.

The Jhansi Airport was being administered by the Army Aviation Squadron. Since the Defence Authorities noticed the construction activities in the "No Construction Zone", they convened a meeting with Authority representatives in October 2006 and asked the Authority to stop the construction work of the flyover. Later on when the Authority approached the authorities concerned for No Objection Certificate (NOC) for the construction/completion of the flyover, the Defence Authorities as well as Airports Authority of India communicated in October 2006 and September 2007 respectively no permission to the Authority for construction of flyover on the ground that the site lies in "No Construction Zone" of Jhansi Airport. The construction of flyover was suspended on 13 October 2006.

During the period from April 2006 to October 2006, the Authority had already incurred Rs.2.08 crore on the part construction of the flyover. As the Authority or the DPR consultant did not seek/obtain the prior clearance from the concerned authorities, the amount of Rs.2.08 crore incurred on the construction of flyover proved wasteful.

The Management stated (August 2008) that:

- The DPR was initiated in the year 2003 and no objection was raised during the land acquisition which was given wide publicity in local newspapers.
- The matter of NOC for construction of flyover was referred to the Department of Road Transport & Highways for convening a meeting with Ministry of Defence and Ministry of Civil Aviation.

Audit, however, observes the following:

- The DPR consultant while preparing the DPR failed to take into account the Gazette Notification dated 5 January 1988 which led to the wasteful expenditure to the tune of Rs.2.08 crore.

- No action was initiated by the Authority against the DPR consultant.

- Ministry of Road Transport and Highways could not obtain NOC so far (July 2009).

Thus, due to not taking the prior clearance for the construction of flyover from the concerned authorities, Authority suffered a loss of Rs.2.08 crore on account of infructuous expenditure on construction of flyover in 'No Construction Zone'.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

CHAPTER XVIII: DEPARTMENT OF SHIPPING

The Shipping Corporation of India Limited

18.1.1 Loss due to delay in decision making

The Company incurred an avoidable loss of Rs.17.82 crore due to delay in taking a decision to terminate the loss making India – US IDX service.

The Shipping Corporation of India Limited (Company) entered (April 2006) into Vessel Sharing Agreement with Emirates Shipping Lines (ESL), Zim Lines and Mac Andrews to commence a India-The United State of America(US) weekly service to take benefit of growing US containerised trade. The new marketing venture was conceived assuming a growth of India-US containerised trade at 15-17 *per cent* annually. In the cost benefit analysis, the Management had a pessimistic profit projection of Rs.2.78 crore and optimistic projection of Rs.28.87 crore based on estimated 85 *per cent* capacity utilisation (95 *per cent* during peak season of June-October) of west bound traffic and 60 *per cent* east bound in the first year of operation. The service was launched on 25 May 2006 with eight vessels {the Company two vessels inchartered for 35/37 months, ZIM three vessels (subsequently reduced to two), ESL two vessels and Mac Andrews one vessel} having capacity of 2500 to 2600 TEUs[♣] each.

Mac Andrews, a partner in the service, withdrew from the IDX service in January 2007 after eight months of operation due to mounting losses. Two new lines, Orient Overseas Container Line Limited (OOCL) and Italia Marittima were inducted into the consortium with one vessel each.

As per Article 7.5 of the Vessel Sharing Agreement, the service could be terminated at any time by unanimous written consent of the parties. As the service was making huge losses, an emergency Principals meeting was held on 16 July 2007 wherein the partners opined to terminate the service in view of the adverse market conditions. The Company proposed rationalisation of the service to reduce costs and to wait till situation improves. The Company desired to continue the service till alternate arrangements were made to serve the India US market. As the service was making huge losses, it was proposed (July 2007) for withdrawal/termination of the service as early as possible, stating that since the time of starting the IDX service, three other lines/consortiums started services from Indian sub-continent to USA, resulting in operational loss of Rs.33.53 crore during the year 2006-07 as against projected profit of Rs.2.78 crore and for the year 2007-08 the anticipated loss was Rs.41.31 crore. In the proposal, it was foreseen that (i) the lead time required for repositioning of containers already in pipeline was around three to four weeks, (ii) notice period to be given to terminals (iii) to put into operation the evacuation plan for evacuating the residual empties and (iv) alternate plans to use the in-chartered ships for other services. However, the proposal was not approved by the Company

[♣] ***TEUs-Twenty foot equivalent units*** stating that in liner business continuity in a service was very vital and it would be a loss of face for the Company, the national carrier, to get into a liner trade and walk off it again. The request of the partners was agreed to with a condition that the Company would have the right to sue the partners for damage particularly if there was any NYSA-ILA pension liability on the Company.

Another meeting of the partners was held on 17 October 2007 wherein the partners stated that they were forced to continue in the service due to the conditional approval of the Company and wanted unconditional consent to terminate the service. The partners further stated that they would be forced to withdraw their vessels to cut losses in case the Company maintained their conditional consent. In view of the stand taken by the partners, the Company considered (October - November 2007) another proposal wherein it was foreseen that the service would be terminated in a planned phased manner enabling all partners to give sufficient notice to the trade and customers. It was decided (12 November 2007) to terminate the service. Accordingly, the service was withdrawn gradually by January 2008. During the operation of the service from May 2006 to January 2008, it incurred a loss of Rs.74.46 crore which included loss of Rs.23.15 crore incurred from August 2007 to January 2008 after the Company decided to continue in the service. Out of the loss of Rs.23.15 crore, loss of Rs.17.82 crore pertained to the period from November 2007 to January 2008. This loss could have been avoided had the Company decided to terminate the service in July 2007 and gradually completed it by October 2007 as the normal cycle of the service was three months.

The Management contended (July 2009/November 2009) that:

- Excess tonnage in the market and drop in the freight rates/high bunker cost resulted in the operation incurring losses. Also, the trade growth to the US suddenly slowed down.

- Company wanted to be sure that there would not be any repercussions on earlier withdrawal and was of the view that continuity in a service was very vital and entering and exiting from a particular service or region only leads to a loss of face for the National Line.

- There was a large inventory lying in the US which had to be brought back. No line was willing to offer any slots on their service (as the vessels were coming full EB) to Company to bring back their empty containers.

- The Company had signed agreements with the terminals and had to look into the repercussions, if the contract was terminated before the expiry.

- The Company would have to pay for the NYSA-ILA Pension Trust Fund.

- The Company had signed service contracts with the clients for the whole year and terminating the services without any notice might result in having to pay penalties for not providing service to them.

- The service cannot be terminated in the middle of a cycle as there were issues about slot exchanges, payouts in case of vessel skipping a call, etc. The cycle in the IDX service was of about three months.

- It would have incurred additional cost of Rs.50.80 crore (Rs.22 crore towards premature withdrawal of two vessels and Rs.28.80 crore towards build down and repositioning cost of empty containers) in case of unconditional termination in July 2007.

The reply of the Management is not convincing on account of the following:

- At the time of taking decision to continue the service in July 2007 or to terminate the service in November 2007, there was no reported change in the position of the service. Almost all the implications of termination of the service remained the same in July and November 2007. The delay in taking decision to terminate the service resulted in avoidable loss of Rs.17.82 crore.

- The Company had proposed utilisation of the two in-chartered vessels for other services both in July 2007 and November 2007. The Company had also utilised the two vessels in other services w.e.f., November 2007 and March 2008 and redelivered these vessels only after completion of the charter period on 2 October 2009 and 5 November 2009 respectively. Since the vessels were effectively utilised in other services, the loss of Rs.22 crore estimated by the Company for premature withdrawal of the vessels did not occur. Further, even if the vessels were not utilised in other services of the Company, the vessels could have been chartered out at charter hire rates of US$24,000 to US$28,000 per day per vessel, which were the charter hire rates of similar vessels prevalent in the market.

- Regarding build down and repositioning cost of empty containers estimated at Rs.28.80 crore, the Management itself stated (November 2009) that there was no empty evacuation after the termination of the service as all the containers were repositioned using the Company's service. Had the Company taken the decision in July 2007 also, the Company could have utilised its service till October 2007 (cycle period of three months) for repositioning the containers.

- The pension fund liability still exists and the Company had made a provision of Rs.17.87 crore towards this liability in the accounts for the year 2008-09.

- While taking the decision in July 2007 to continue the service or in November 2007 to terminate the service, cost implication of Rs.50.80 crore for withdrawing from the service as stated by the Company in November 2009 had neither been worked out nor reported to the Management to enable it to take a considered decision. How the Company has now worked out such a probable loss and if it was a fact, then why such a vital information was kept away from the Management remained an enigma.

Thus, delay in terminating the service resulted in an avoidable loss of Rs.17.82 crore. The Company should streamline the decision making process to safeguard its financial interests.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

CHAPTER XIX: MINISTRY OF STEEL

KIOCL Limited

19.1.1 Extra expenditure due to payment of higher tariff and congestion surcharge on transportation of iron ore

Failure of the Company to get its railway siding declared as 'other than stations/sidings serving port' immediately on starting the operations resulted in payment of higher tariff of Rs.6.05 crore and surcharge of Rs.73.15 crore on transportation of iron ore.

KIOCL Limited (Company) transported Iron ore from NMDC Limited's mines at Donimalai (Karnataka) to Panamburu railway siding through south western railways (SWR) & Bailadila (Orissa) from Kirandul railway siding of east coast railways (ECR) through Vizag via ship to Mangalore.

As per Railways tariff, Panamburu siding was a port serving siding which attracts higher tariff than the iron ore transported for 'other than Port serving siding'. The Company's own siding at Panamburu station became operational w.e.f., January 2006, hence the Company was eligible for a lower tariff for transportation of iron ore. The Railways levied Congestion Surcharge (CS) w.e.f., 1 April 2007 as a percentage of base freight which varied from time to time and was abolished from 22 May 2008. As per Railways, CS was not applicable for iron ore transported to independent sidings and for domestic use.

Audit observed that:

- The Company took up with Railways for declaration of its siding as 'independent siding' (other than stations/sidings serving port) only in June 2007 and Railways declared it as such only w.e.f., 1 March 2008. This delay in getting its siding declared as independent siding resulted in payment of higher tariff of Rs.6.05 crore from 14 January 2006 to 31 March 2007. The Company did not prefer a formal claim with Railways for refund of the extra freight even as on date (November 2009).

- Though the Company was eligible for non levy of CS but due to delay in getting its siding declared as independent siding, it paid Rs.68.78 crore towards CS from 1 April 2007 to 21 May 2008.

- Despite reduction (15 April 2008) in surcharge to 30 *per cent* of base freight in respect of transportation to serving ports for domestic consumption purpose, the Company continued to pay it at higher rate of 100 *per cent* in respect of transportation from Kirandul siding to Vizag port siding during 15 April 2008 to 21 May 2008 resulting an extra payment of Rs.4.37 crore.

The Management/Ministry stated (November/December 2009) that:

- There was no delay in taking action and the benefit of reduced rate of CS in respect of Kirandul siding could not be availed immediately as documents were required to be submitted to Railways.

- The Company had to pay higher tariff as the tariff classification was decided by Railways.

The replies are not convincing since:

- Despite being aware that Panamburu was not declared as an independent siding immediately on opening in January 2006, the issue for declaration as independent siding was taken up with the Railways only in June 2007. Failure on the part of the Company to vigorously pursue with railways to get official declaration of its independent siding as such from date of operation not only deprived the Company of lower basic freight but also payment of congestion surcharge. A formal claim for refund of CS on transportation to own siding is yet to be made.

- In respect of extra payment of CS for Kirandul siding, the reply on lack of proper documentation could be attributed to the failure of the internal control system in the Company.

Thus, failure of the Company resulted in payment of higher tariff and surcharge of Rs.79.20 crore[*] on Transportation of iron ore.

Rashtriya Ispat Nigam Limited

19.2.1 Loss of revenue due to cancellation of tender for export of pig iron

The cancellation of tender for export of pig iron despite huge stock level resulted in loss of revenue of Rs.3.63 crore.

Rashtriya Ispat Nigam Limited (Company) issued (March 2008) a Global Tender for export of 25,000 MT of pig iron in May 2008. In response, the Company received (April 2008) offers from three parties of which the highest offer was for Rs.26,400 per MT (US$646.16). The Company cancelled (April 2008) the tender without any recorded reasons. Resultantly, no export of pig iron took place despite sufficient stock level. The revenue loss in the process worked out to Rs.3.63 crore being the difference between the export price and the domestic price of pig iron during the same period.

The Management in its reply (January 2009) mainly contended the following:

- The export tender was cancelled in view of the guidelines (April 2008) of the Ministry of Steel to steel manufacturers to exercise self restraint in exports to ensure availability of stocks in the country.

[*] ***Rs.6.05 crore on basic freight+Rs.68.78 crore on CS, Panamburu+Rs.4.37 crore on CS kirandul***

- The stock of pig iron suddenly rose to alarming levels by June 2008 with very little movement in domestic market and therefore the Management sought permission from Ministry for export of 50,000 MT pig iron which was accepted (June 2008).

The Ministry endorsed (November 2009) the views of the Management.

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

- There was a suggestion from the Ministry of Steel to exercise self restraint in export and not a direction to the Company to stop the export.

- Further, the pig iron stock was 91,551 MT in May 2008 which declined to 70,973 MT in June 2008 when the Company sought the permission of Ministry to export 50,000 MT of pig iron. Thus, it would have been appropriate for the Company to go in for export in May 2008 when the stock level was high.

Thus, the cancellation of export tender despite having huge stock level resulted in loss of revenue of Rs.3.63 crore. It is recommended that the Company should analyse financial implication before making any decision relating to export.

Steel Authority of India Limited

19.3.1 Irregular payment to employees

The amendment to the LTC rules was not followed uniformly across the Company. The Durgapur Steel Plant (DSP), Alloy Steel Plant (ASP) and Bhilai Steel Plant (BSP) of Steel Authority of India Limited in deviation to Company's rules allowed their employees to avail the facility of air travel while availing LTC to Andaman & Nicobar Islands for the second time resulting in an irregular expenditure of Rs.42.46 crore.

Steel Authority of India Limited (Company) amended Leave Travel Concession (LTC) rules on 1 March 2008 providing that the facility of air travel while availing LTC to Andaman & Nicobar Islands would be allowed only once in the service period of the employees. The amendment effective from 1 March 2008 is applicable to all the employees whether entitled to travel by air or not and includes all the previous journeys performed by them to Andaman & Nicobar Islands on LTC, if any.

In this regard Audit observed the following:

- The above amendment to the LTC rules was not followed uniformly across the Company. DSP, ASP and BSP of the Company allowed their employees to avail the facility of air travel while availing LTC to Andaman & Nicobar Islands for the second time. On the other hand, Rourkela Steel Plant (RSP) of the Company did not allow it.

- Those employees (4134) who had been paid LTC advance before 1 March 2008 or where control number had been generated before 1 March 2008 but advance had not been released, were allowed to perform journey to Andaman & Nicobar Islands for the second time.

- The above deviation to Company's LTC rules by DSP, ASP and BSP resulted in an irregular expenditure of Rs.42.46 crore.

The Management in its reply contended (June 2009) that:

- The decision was taken to avoid industrial relations problems.

- Further, no employee was allowed (sanctioned) LTC to Andaman & Nicobar Islands for the second time after 1 March 2008. Only those employees, whom LTC had already been sanctioned on or before 1 March 2008, were permitted to perform the journey.

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

- The industrial relation problem is an after thought of the Management as other units of the Company did not allow their employees to perform journey on LTC to Andaman & Nicobar Islands second time after 1 March 2008 and there was no industrial relation problem as such in these units. In RSP of the Company, employees who had already drawn advance prior to issue of the above circular refunded the advance.

- Since the rules as amended by the Company were applicable with effect from 1 March 2008 equally to all the units of Company and it was not justified on the part of the Management of DSP, ASP and BSP to relax the LTC rule.

Thus, relaxation of Company's LTC rules by DSP, BSP and ASP resulted in an irregular expenditure of Rs.42.46 crore. It is recommended that the policies, rules and regulations of the Company should be followed uniformly across the Company. In case of deviations, the concerned officials be held accountable.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

19.3.2 Irregular payment of reward to the employees

Steel Authority of India Limited made irregular payment of reward of Rs.8.60 crore to its employees in contravention of the guidelines issued by Department of Public Enterprises.

The Department of Public Enterprises (DPE) issued instruction on 20 November 1997 to all public sector undertakings (PSUs), *inter alia*, directing that employees of PSUs drawing wage/salary exceeding Rs.3500 per mensem (increased to Rs.10000 per mensem w.e.f., April 2006) would not be paid bonus, *ex-gratia*, honorarium, reward and special incentive etc unless the amount is authorised under a duly approved incentive scheme.

Audit observed that:

- Steel Authority of India Limited (Company) organised foundation stone laying ceremony for modernisation and expansion projects at Bokaro Steel Plant (BSL) and Salem Steel Plant (SSP) on 22 April 2008 and 5 September 2008 respectively. On both the occasions, Minister of Steel, Chemicals & Fertilizer announced granting of Rs.3000/- to each employee of Company.

- To give effect to the announcement thus made, the Board of Directors (Board) of the Company approved (October 2008) a proposal to make one time payment of Rs.3000/- to each employee of BSL and SSP. The Board also approved a guideline for one time payment of Rs.3000/- as Motivational Reward to the employee of a plant/mine wherever foundation stone would be laid under the modernisation and expansion plans for a period of one year with effect from 1 April 2008.

- The Company paid Rs.8.20 crore to the employees of BSL in September 2008 i.e., before approval of the Board. The payment of Rs.40 lakh was made to the employees of SSP in January 2009. This was in addition to the performance linked incentive paid regularly. The payments were not based on any performance related incentive scheme but were *adhoc* in nature, which was prohibited as per the above guidelines of DPE.

The Management in its reply contended (May 2009) that:

- The payments were made as one time incentive to the employees of BSL and SSP to boost their morale and motivate them for better performance although the name to the scheme was kept as "Motivational Reward for Modernisation & Expansion".

- As per DPE guidelines dated 25 June 1999, PSUs were allowed to pay perquisites and allowances including incentives to reward its employees up to the ceiling of 50 *per cent* of basic pay.

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

- An incentive is paid for achievement of specific target and not for better performance in future. However, the scheme approved by the Board was not based on any specific criteria and was *adhoc* in nature. The scheme approved by the Board in October 2008 was evident to give effect to the announcement made by the Minister of Steel, Chemicals & Fertilizer and not to achieve any milestone.

- DPE guidelines quoted by the Management in its reply are not relevant in this case as the payment of reward does not come into the ambit of perquisites or allowances.

Thus, payment of reward of Rs.8.60 crore to the employees in contravention of the guidelines issued by DPE, was irregular. It is recommended that the Company should not violate DPE's instructions while making payments to its employees.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

19.3.3 Extra expenditure due to delay in taking action

The failure of the Company in taking timely action during the pendency of the contract to get the supply of material as per the delivery schedule and delay in taking legal action against the supplier, resulted in an extra expenditure of Rs.3.50 crore on procurement of 1103 MT of Silico Manganese at higher rate.

Steel Authority of India Limited (Company), placed purchase order (September 2006) on Bishwanath Ferro Alloys Limited, Kolkata for procurement of 2,000 MT of Silico Manganese at a price of Rs.23,300 per MT with delivery period from September 2006 to February 2007. As per the terms of the purchase order, the price was firm and the quantity was subject to a tolerance of plus/minus 10 *per cent* at buyer's discretion. In case of failure by the seller to deliver the materials or any consignments thereof, the Company had the option to cancel the contract either fully or partly and to purchase the material at the risk and cost of the seller. In December 2006, the Company increased the quantity from 2,000 MT to 2,200 MT and extended the delivery schedule to March 2007.

Audit noticed the following:

- The supply of material was not as per the schedule right from beginning and out of the total quantity of 2,200 MT, only 1,097 MT was supplied till March 2007 leaving a balance of 1,103 MT pending for delivery.

- The Company did not take timely action during the pendency of the contract to get the supply of material as per the delivery schedule.

- The seller refused (June 2007) to supply the balance quantity stating that the contract ceased to subsist and there was no question of any supply under such lapsed contract. The Company went (June 2007) in for risk purchase action under the terms of purchase order and purchased (December 2007) the shortfall quantity (1,103 MT) from an alternate source at a higher price of Rs.49,801 per MT, which resulted in an extra expenditure of Rs.3.50 crore.

- The supplier had given a bank guarantee (BG) for Rs.29.39 lakh which was valid up to 31 May 2007. However, the Company did not encash the bank guarantee and lost the opportunity of compensating the loss by Rs.29.39 lakh.

- The Company acted belatedly in taking legal action against the supplier to recover the extra expenditure incurred by the Company.

The Management in reply contended (August 2009) the following:

- Contractual delivery of the material remains spread over a period of several months and as such practically it was not feasible to take Risk Purchase action against defaulted quantities on monthly basis.

- The BG submitted by the supplier, was of limited value of five *per cent* and was valid for a period of three months from the date of last supply. In any case, the loss on account of non-supply was of much larger value. Also to avoid any future possibility of non-encashment of BG, a procedure had been devised for dealing with BGS submitted as Security deposit or Performance Guarantee.

- A money suit had been filed on 20 April 2009 at Chas court, Bokaro against the supplier.

The Reply of the Management is not convincing in view of the following:

- As the supply of material was not as per the schedule right from beginning, the Company should have taken timely action during the pendency of the contract to get the supply of material as per the delivery schedule by invoking risk purchase clause.

- The Management failed to encash the BG within its validity and lost an opportunity to reduce the loss by Rs.29.39 lakh. Though the BG was of small value, the Management should have shown prudence in encashing it in time. The Management's failure in this regard also indicates weakness in its internal control and monitoring.

Thus, the Company incurred an extra expenditure of Rs.3.50 crore in procurement of Silico Manganese due to delay in taking action against the supplier.

It is recommended that the Company should monitor the performance of contract regularly and take prompt remedial action wherever delays are noticed.

The matter was reported to the Ministry in September 2009; their reply was awaited (November 2009).

CHAPTER XX: MINISTRY OF TEXTILES

National Textiles Corporation Limited

20.1.1 Excess payment of customs duty

Failure to claim concessional rate of custom duty under 'Project Imports' for machinery imported for expansion of mills resulted in excess payment of customs duty by Rs.2.26 crore.

As per Chapter 98 of the Customs Tariff Act, all machinery imported for the initial setting up of a unit or for substantial expansion of an existing unit would be classified under the head 'Project Imports' and eligible for concessional rate of import duty, provided the expansion in capacity was not less than 25 *per cent*. However, for availing the benefit of concessional rate of duty, the importer had to apply for registration of the contract at the port where the goods were to be imported or where the duty was to be paid.

National Textile Corporation Limited (Company) decided (August 2007) to modernise its two mills, i.e., Tata Mills and United India Mill No.5 at a cost of Rs.90.79 crore. The modernisation of the mills involved the installation of new machinery and component parts which were imported during the period July 2007 to September 2008. After installation of new machines, the installed capacity of the Tata Mills registered an increase of 38.12 *per cent* (from 25,080 spindles to 34,640 spindles) and United India Mill No.5 registered an increase of 49.75 *per cent* (from 26,048 spindles to 39,008 spindles).

It was observed in Audit that despite being eligible for concessional rate of import duty, the Company did not register the contract for purchase of machinery with the Custom authorities at Mumbai port. The Company thus paid custom duty at normal rate (effective rate of 28.64 *per cent*) under the tariff head applicable for textile machinery instead of the concessional rate of import duty under Chapter 98 (effective rate of 20.75 *per cent*). The cost of machinery and spare parts imported was Rs.39.68 crore and import duty of Rs.8.58 crore was paid by the Company as against the concessional duty of Rs.6.32 crore. Thus, failure on the part of NTC to register the contract for import of machinery with the Customs authorities resulted in excess payment of customs duty amounting to Rs.2.26 crore.*

The Management in respect of Tata Mills, stated (July 2009) that the increase in capacity of the mill was only 21.12 *per cent* from 28,600 spindles to 34,640 spindles.

***** *Rs.8.58 crore minus Rs.6.32 crore.***

The reply is not acceptable. The Modernisation Plan of Tata mills and Annual Accounts for the year 2008-09 of the Company show that the installed capacity had actually increased from 25,080 spindles to 34,640 spindles by 38.12 *per cent*.

Thus, failure to claim concessional rates of custom duty for machinery imported for expansion of mills resulted in excess payment of customs duty by Rs.2.26 crore during the period July 2007 to September 2008.

The matter was reported to the Ministry in July 2009; their reply was awaited (November 2009).

CHAPTER XXI

Follow-up on Audit Reports (Commercial)

Audit Reports of the Comptroller and Auditor General of India (C&AG) represent the culmination of the process of scrutiny starting with initial inspection of accounts and records maintained in various offices and departments of PSUs. It is, therefore, necessary that appropriate and timely response is elicited from the Executive on the Audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on various paragraphs/appraisals contained in the Audit Reports (Commercial) of the C&AG as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99-Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);
- setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and
- submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up ATNs duly vetted by Audit in respect of all Reports of the C&AG presented to Parliament.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000-Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. Accordingly, a monitoring cell is functioning in the DPE since August 2000 to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Departments. Monitoring cells have also been set up within the concerned Ministries for submission of ATNs on various Reports (Commercial) of the C&AG.

A review in Audit revealed that despite reminders, the remedial/corrective ATNs on the transaction audit/compliance audit paragraphs/reviews contained in the last five years'

Audit Reports (Commercial) relating to the PSUs under the administrative control of various Ministries, as detailed in ***Appendix-III***, were not received by Audit for vetting. No ATN has been received in respect of 16, 19, 22, 26 and 66 transaction audit/compliance audit paragraphs/reviews contained in Audit Reports (Commercial) of 2004, 2005, 2006, 2007 and 2008 respectively.

For Audit Reports (Commercial) of 2009-10 which were presented to Parliament in July, 2009, ATNs on 150 out of 166 transaction audit/compliance audit paragraphs/reviews were awaited from various Ministries as of 20 November 2009.

Out of 299 paras/reviews on which ATNs were awaited, 65 paragraphs related to PSUs under the Department of Telecommunications, 41 paragraphs related to PSUs under the Ministry of Finance (Insurance Division) and 35 paragraphs related to PSUs under the Ministry of Petroleum and Natural Gas.

(SUNIL VERMA)

New Delhi — **Deputy Comptroller and Auditor General**

Dated: — **and Chairman, Audit Board**

Countersigned

New Delhi — (**VINOD RAI**)

Dated: — **Comptroller and Auditor General of India**

Annexure-I

(Referred to in Para 5.1.1)

Statement showing loss of interest due to excess payment of advance tax during financial year 2006-07

Month/ Year	Excess paid advance tax (Rs. in crore)	Rate of interest earned by BSNL in *per cent*	Rate of interest received from IT Dept. in *per cent*	Difference in rate of interest in *per cent*	Loss of interest (Rs. in crore)
Jul-06	100	7.58	0	7.58	0.63
Aug-06	100	7.34	0	7.34	0.61
Sep-06	100	7.18	0	7.18	0.60
Oct-06	200	6.90	0	6.90	1.15
Nov-06	200	6.78	0	6.78	1.13
Dec-06	200	7.57	0	7.57	1.26
Jan-07	300	9.05	0	9.05	2.26
Feb-07	300	6.47	0	6.47	1.62
Mar-07	400	9.52	0	9.52	3.18
Apr-07	400	9.74	6	3.74	1.25
May-07	400	9.62	6	3.62	1.21
Jun-07	400	8.79	6	2.79	0.93
Jul-07	400	8.44	6	2.44	0.81
Aug-07	400	7.40	6	1.40	0.47
Sep-07	400	7.36	6	1.36	0.46
Oct-07	400	7.42	6	1.42	0.47
Nov-07	400	6.97	6	0.97	0.32
Dec-07	400	7.19	6	1.19	0.40
Jan-08	400	7.14	6	1.14	0.38
Feb-08	400	5.56	6	-0.44	-0.15
Mar-08	400	9.73	6	3.73	1.24
Apr-08	400	8.32	6	2.32	0.77
May-08	400	8.05	6	2.05	0.68
Jun-08	400	8.05	6	2.05	0.68
Jul-08	400	8.54	6	2.54	0.85
					23.21

Note

		Rs. in crore
Advance tax actually paid for		**1524**
Corporate tax actually paid for PY 2006-07	**995**	
Add 10 *per cent* variation	**100**	
	1095	**1095**
Excess paid advance tax after considering 10 *per cent* variation		429

Roughly Rs.400 crore

Annexure-II
(Referred to in para 5.1.2)
Continuation of telephone facilities despite non-payment of dues

(Rs. in lakh)

Sl. No.	Name of circle/SSA	Number of subs-cribers	Period of non-recovery	Amount of non-recovery	Recovery/ Adjustment made	Balance amount to be recovered
Bihar telecom circle						
1.	PGMT Patna	247	April 2001 to March 2009	284.63	58.47	226.16
2.	TDM Munger	12	April 2001 to March 2009	62.40	0.00	62.40
			Sub-Total	**347.03**	**58.47**	**288.56**
Madhya Pradesh telecom circle						
1.	General Manager Telecom District Indore	119	March 2000 to October 2008	248.45	0.00	248.45
			Sub-Total	**248.45**	**0.00**	**248.45**
Maharashtra telecom circle						
1.	Khamgaon	638	April 2005 to March 2008	56.94	0	56.94
2.	Nagpur	1001	April 2005 to March 2008	76.92	0	76.92
3.	Pune	5667	April 2005 to March 2008	597.66	0	597.66
4.	Satara	38	April 2005 to March 2008	17.58	0	17.58
5.	Amravati	467	April 2005 to March 2008	41.35	0	41.35
6.	Ahmednagar	2205	April 2005 to March 2008	182.18	0	182.18
			Sub-Total	**972.63**	**0.00**	**972.63**
Rajasthan telecom circle						
1.	GMTD Kota	353	January 2006 to January 2007	4.83	4.50	0.33
2.	TDM Barmer	499	September 2006 to September 2007	4.19	1.92	2.27
3.	GMTD Nagaur	56	January 2001 to June 2007	9.60	7.43	2.17
4.	GMTD Udaipur	35	April 2004 to March 2008	1.23	0.94	0.29
5.	TDM Banswara	659	July 2007 to November 2008	4.90	2.40	2.50
6.	GMTD Jodhpur	667	October 2006 to May 2007	15.77	9.95	5.82
			Sub-Total	**40.52**	**27.14**	**13.38**
	Grand Total			**1608.63**	**85.61**	**1523.02**
						Say Rs.16.09 crore

Annexure-III
(Referred to in para 5.1.3)
Details of loss of subsidy due to non- provision of RDELS and maintenance of fault-free and functional VPTs

(Rs. in lakh)

Sl. No.	Name of the circle/SSA	Period	Amount of loss
Chattisgarh telecom circle			
1.	GMTD Raipur	January 2007 to March 2008	38.82
Sub-Total			**38.82**
Madhya Pradesh telecom circle			
1.	GMTD, Hoshangabad Bharuch	October 2007 to September 2008	70.57
2.	GMTD Bhopal	April 2006 to March 2008	38.10
3.	GMTD Gwalior	July 2007 to March 2008	39.81
Sub-Total			**148.48**
Uttaranchal telecom circle			
1.	TDM New-Tehri	June 2007 to June 2008	106.10
2.	GMTD Almora	June 2007 to December 2007	52.36
3.	GMTD Nainital	June 2007 to June 2008	47.27
Sub-Total			**205.73**
Uttar Pradesh (East) telecom circle			
1.	TDM Partapgarh	October 2003 to March 2008	242.09
2.	GMTD Basti	April 2007 to March 2008	204.36
3.	TDM Shahjahanpur	April 2005 to June 2008	201.41
4.	TDM Jaunpur	January 2006 to March 2008	114.73
5.	TDM Hamirpur	April 2006 to June 2008	88.37
6.	TDM Banda	March 2007 to March 2008	28.88
7.	TDM Behraich	April 2007 to March 2008	50.52
Sub-Total			**930.36**
Uttar Pradesh (West) telecom circle-VPTs			
1.	TDM Rampur	April 2007 to March 2008	28.08
2.	GMTD Aligarh	January 2006 to September 2008	143.64
Sub-Total			**171.72**
Tamil Nadu telecom circle			
1.	CGMT, Chennai	June 2005 to December 2006	46.67
Sub-Total			**46.67**
Grand Total			**1541.78**

Say Rs.15.42 crore

Annexure-IV

(Referred to in para 5.1.4)

Non-realisation of compensation charges for damages to optical fibre cable and under ground cable by out side agencies

(Rs. in lakh)

Sl. No.	Name of the SSA/Circle	Period of damage/ replacement	Compensation charges		
			Due	Realised	Balance
Orissa telecom circle					
1.	GMTD Rourkela	March 2007 to May 2007	112.50	0	112.50
		Sub-Total	**112.50**	**0**	**112.50**
Punjab telecom circle					
1.	GMT Patiala	October 2004 to January 2007	23.33	0	23.33
		Sub-Total	**23.33**	**0**	**23.33**
Uttar Pradesh (East) telecom circle					
1.	TDM Partapgarh	2007-08	52.95	0	52.95
2.	GMTD Basti	2006-08	37.93	0	37.93
3.	TDM Unnao	2007-08	64.18	0	64.18
4.	TDM Raebareli	2007-08	410.63	0	410.63
		Sub-Total	**565.69**	**0**	**565.69**
Uttar Pradesh (West) telecom circle					
1.	GMTD Meerut	2006-08	24.47	0	24.47
2.	GMTD Bijnor	2004-05	75.83	0	75.83
		Sub-Total	**100.30**		**100.30**
Uttranchal telecom circle					
1.	GMTD Dehradhun	August 2007 to April 2008	10.50	0	10.50
		Sub-Total	**10.50**	**0**	**10.50**
Grand Total			**812.32**	**0**	**812.32**

Say Rs.8.12 crore

Annexure-V
(Referred to in para 5.1.5)
Year wise utilisation of 50 pair cables

Figures in KMs.

Year	Name of the SSA					Total
	Bijapur	Mangalore	Mysore	Mercara	Raichur	
2004-05	10.657	161.431	6.061	23.692	11.835	**213.676**
2005-06	13.172	124.027	17.618	30.578	16.638	**202.033**
2006-07	17.363	72.727	36.408	15.893	1.634	**144.025**
Total						**559.734**
Average utilisation *per* year based on utilisation during the last three years						**186.578**

Annexure-VI
(Referred to in para 5.1.5)
Statement showing the details of Cables received and utilised as on 31.03.2009

Name of the SSA	Year	Opening Balance	Quantity purchased	Cost of purchased quantity	Utilisation	Closing Balance	Closing Balance of 2008-09
		Kms.	Kms.	Rs.	Kms.	Kms.	Kms.
Mysore	2007-08	**0**	55.996	6513515	8.024	47.972	
	2008-09	47.972	79.904	10546934	7.022	120.854	120.854
Mangalore	2007-08	**213.095**	205.773	23935844	41.183	377.685	
	2008-09	377.685	0	0	20.244	357.441	357.441
Raichur	2007-08	**49.046**	74.984	8746985	1.782	122.248	
	2008-09	122.248	0	0	2.922	119.326	119.326
Mercera	2007-08	**37.188**	39.960	4607158	4.677	72.471	
	2008-09	72.471	65.285	8641198	20.581	117.175	117.175
Bijapur	2007-08	**50.202**	71.966	8374096	25.639	96.529	
	2008-09	96.529	0	0	14.205	82.324	82.324
Totals			**593.868**	**71365730**	**146.279**		**797.12**
Total opening balance		**349.531**					

Annexure-VII

(Referred to in para 5.1.6)
Statement showing non-realisation of interest on delayed transfer to funds collection account to Corporate collection account.

(Rs. in lakh)

Sl. No.	Circle/SSA	Period	Bank	Interest due	Amount realised	Total to be realised
Andhra Pradesh telecom circle						
1.	CGMT, Andhra Pradesh	2003-04 to 2007-08	State Bank of India	86.84	0.00	86.84
			State Bank of Hyderabad	200.04	0.00	200.04
			ICICI Bank	27.17	0.00	27.17
			Corporation Bank	0.16	0.00	0.16
			Sub-Total	**314.21**	0.00	**314.21**
Rajasthan telecom circle						
1	GMTD Ajmer	December 2004 to September 2007	Punjab National Bank	2.19	0.55	1.64
2	GMTD Banswara	November 2004 to March 2008	do	4.37	2.24	2.13
3	TDM Bundi	November 2004 to October 2007	do	2.44	0.78	1.66
4	TDE Jaisalmer	November 2004 to January 2008	do	2.03	0.74	1.29
5	GMTD Jhunjhunu	November 2004 to January 2008	do	4.00	0.68	3.32
6	GMTD Kota	November 2004 to March 2008	do	5.00	3.33	1.67
			Sub-total	**20.03**	**8.32**	**11.71**
Grand Total				**334.24**	**8.32**	**325.92**

Say Rs.3.34 crore

APPENDIX -I

(Referred to in para 15.1.1)

Amount (Rs. in lakh)

Name of PSU	**Name of the Ministry/ Department**	**Audit observation in brief**	**Amount of recovery pointed out by Audit**	**Amount recovered by the Management**
Eastern Coalfields Limited	Coal	Non recovery of service tax on leasing out of Captive Power Plant on rental basis to M/s. Dishegarh Power Supply Company Limited	72.10	30.00
Airports Authority of India	Civil Aviation	(i) Non-recovery of licence fees and royalty from the licencee of the duty free shops – M/s. Flemingo International Limited	102.00	97.67
		(ii) Non recovery of cost of spare parts of X-ray machines transferred to private operators at Delhi Airport	151.00	85.50
		(iii) Incorrect application of tariff resulted in short billing of revenue	67.85	8.56
National Aviation Company Limited	Civil Aviation	Overpayment to a ground handling agency	13.74	13.74
Bharat Sanchar Nigam Limited	Telecommu-nications	(i) Non/short billing by the Company in 14 Secondary Switching Areas	1245.27	1044.63
		(ii) Penal interest on outstanding advance	612.00	612.00
Food Corporation of India	Consumer affairs, food and public distribution	(i) Non recovery of excess incidental charges paid to MPSSCSC	120.09	120.09
		(ii) Discrepancy in claiming of rent for godown let out to National Collateral	115.81	238.80

Name of PSU	Name of the Ministry/ Department	Audit observation in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
		Management services Limited		
		(iii) Excess payment of self lease rent to an employee	0.50	0.58
		(iv) Excess expenditure on gunnies due to payment of gunny cost based on 35 Kg filling instead of 40 Kg bags	24.49	24.49
		(v) Excess payment to the APSCSC towards commission to the societies	28.36	28.36
Goa Shipyard Limited	Defence	Non recovery of penalty from M/s. Kidde Fenwal Inc	1.54	1.54
The New India Assurance Company Limited	Finance	(i) Non-recovery of dues from terminated employee	1.43	1.51
		(ii) Undue refund of premium	1.68	1.68
		(iii) Excess payment of claim	0.49	0.49
		(iv) Short charging of premium under floater group policy – M/s. AB Hotels	0.48	0.48
		(v) Short charging of premium due to wrong application of tariff – M/s. R.K. Electricals	0.59	0.59
		(vi) Undercharge of premium–Today's writing products private Limited	2.94	3.03
		(vii) Excess refund on cancellation of Motor policies	0.47	0.47
National Insurance	Finance	Undercharging of premium under Animal Driven Cart	0.49	0.49

Name of PSU	**Name of the Ministry/ Department**	**Audit observation in brief**	**Amount of recovery pointed out by Audit**	**Amount recovered by the Management**
Company Limited		Insurance		
The Oriental Insurance Company Limited	Finance	Loss due to non loading of premium for adverse claim ratio of Fire Policy – M/s. Jindal Steel Power Limited	29.63	29.63
United India Insurance Company Limited	Finance	Excess payment of flood claims	0.26	0.21
Bharat Heavy Electricals Limited	Heavy Industries and Public Enterprises	(i) Non preferment of foreign exchange rate variation (ERV) claims on the customer despite contractual terms	1461	1754
		(ii) Non-recovery of charges on account of short blasting done at BHEL, Trichy from a private vendor (M/s. PSL, Chennai)	0	3.22
		(iii) Short recovery of CST from a private party (M/s. Jindal Stainless Limited)	16.05	16.92
		(iv) Short claim due to inclusion of lesser rate of Education Cess on the countervailing duty from Tata Power Company Limited	10.10	10.10
Narmada Hydroelectric Development Corporation Limited	Power	Non realisation of capacity index incentive	2112.00	459.00
National Minerals Development Corporation	Steel	Payment of Rs.122.36 lakh to Forest Department for acquisition of land at double the rate of Net Present Value and handing over the land to a private party (M/s	122.36	122.36

Name of PSU	Name of the Ministry/ Department	Audit observation in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
		Essar) without claiming refund of the above amount		
National Textiles Corporation Limited	Textiles	Irregular payment of service tax by M/s Pioneers Spinners, a unit of NTC	0.74	0.74
	TOTAL		**6315.46**	**4710.88**

APPENDIX -II

(Referred to in para 15.1.2)

Corrections/rectifications at the instance of audit

Name of PSU	**Name of the Ministry**	**Audit observation in brief**	**Action taken by the management**
UTI Trustee Company Private Limited	Finance	Failure to include a clause in the offer documents of various MF schemes for charging of trusteeship fee to the Mutual Fund schemes, as provided in the trust deed, resulted in a loss of revenue of Rs.21.31 crore.	The Board of Directors of the Company passed the resolution (August 2009) to charge trusteeship fee @0.2 bps of the weekly average net assets to the schemes of UTI Mutual Fund with effect from 1st April 2009.
Bharat Heavy Electricals Limited	Heavy Industries	Failure in claiming service tax on freight charges from customers due to absence of system of identifying the freight expenditure incurred project wise on Direct to Site (DTS) items	The Company has developed a new system with help of ERP team wherein the DTS freight bills are tagged with their customer number while the bills are processed in Finance w.e.f., 1 April 2008.
Oil and Natural Gas Corporation Limited	Petroleum and Natural Gas	The company owned Geo-technical Vessel (GTV) Samudra Sarvekshak was designed to carry out geo-technical investigations and was also capable of carrying out diving jobs. The system was not in operation since October 2003. An expenditure of Rs.10.44 crore was, however, incurred by the Company during October 2003 to March 2009 to maintain skeletal manpower to keep the GTV in working condition.	The matter was deliberated at its Virtual Corporate Board meeting in September 2009 and a decision was taken to discontinue the maintenance of diving vessel and keep the system in Preservation mode. The saving estimated by the Company was to the tune of Rs.1.20 crore every year while only a one time expenditure of Rs. one crore will be required, if vessel is deployed in diving mode at a later stage.
Rashtriya Ispat Nigam Limited	Steel	Undue benefit to private party by allowing carry forward of tolerance quantity to the subsequent shipments at prices lower than the prevailing levels due to incorporation of a clause ‘option of tolerance on quantity delivered allowed	The Company has modified (December 2008) the terms and conditions of agreement for export of pig iron by modifying the clause as ‘No tolerance in contracted quantity is permissible’

Name of PSU	Name of the Ministry	Audit observation in brief	Action taken by the management
		(+/-) 10% at buyers option' in the sale agreement.	
Bisra Stone Lime Company Limited	Steel	The Company authorized its CMD to operate Bank Accounts individually up to an amount of Rs. 12.00 crore for a single payment. It was pointed out by audit that since operation of Bank Account is sensitive in nature, a single officer should not be allowed to sign a cheque of such a high value.	The Company has revised the system of operation of Bank Accounts from 'individually by the CMD' to 'jointly by CMD and any one of the Sr. Manager (F) & CFO, Dy. Manager (F) and the Company Secretary'.
Bisra Stone Lime Company Limited	Steel	The Company, engaged in the mining of limestone and dolomite, had no approved norms for handling loss of limestone and dolomite.	The Company has fixed the norms for handling loss at Lump 2.5% of production and Fines 5.0% of production for Limestone and Dolomite with the approval of the Board of Directors in June, 2009.

APPENDIX -III

(Referred to in Chapter XXI)

Statement showing the details of Audit Reports (Commercial) for which Action Taken Notes are pending (As on January 2010)

No. and Year of Report	Name of the Report	Para No., if any
Department of Bio-Technology		
1. No. 11 of 2007	Transaction Audit Observations	Para 3.1.1
Department of Fertilizers		
1. PA 9 of 2008	Performance Audit on working of Udyogmandal Division of FACT Limited.	Paras 1.7.1.1, 1.7.1.2, 1.7.2, 1.7.3.1, 1.7.4.1, 1.7.5.1, 1.7.5.2, 1.7.5.3, 1.7.5.4, 1.7.5.5, 1.7.5.6, 1.7.5.7, 1.7.6, 1.7.7, 1.7.8.1 and 1.7.8.2
2. No. 11 of 2008	Compliance Audit Observations	Paras 9.1.1 and 9.2.1
Ministry of Civil Aviation		
1. No. 12 of 2006	Transaction Audit Observation	Paras 4.1.1 and 16.2.1
2. No. 11 of 2007	Transaction Audit Observations	Paras 4.1.1, 4.2.2 and 15.1.1
3. No. 11 of 2008	Compliance Audit Observations	Paras 4.1.1 and 4.2.4
Ministry of Coal		
1. No. 3 of 2005	Transaction Audit observations	Para 4.2.1
2. No. 11 of 2007	Transaction Audit Observations	Para 15.1.1
Ministry of Commerce and Industry		
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GLOSSARY

AFFRVs	Airfield Fire Fighting and Rescue Vehicles
AHQ	Air Headquarter
BA	Business Associates
BAP	Boiler Auxiliaries Plant
BOD	Board of Directors
BOO	Build Own Operate
BOOT	Build Own Operate Transfer
CGMT	Chief General Manager Telephones
CIDCO	City Industrial Development Corporation of Maharashtra Limited
CMBS	Contributory Medical Benefit Scheme
CMPF	Coal Mines Provident Fund
CPP	Coal Preparation Plant
CS	Congestion Surcharge
CSA	Component Support Agreement
DGS	Directorate General of Shipping
DoT	Department of Telecommunications
DPE	Department of Public Enterprises
DPR	Detailed Project Report
EL	Excess of loss
EPC	Executive Purchase Committee
EPCG	Export Promotion of Capital Goods
FMPL	Future Metals Private Limited
FOC	Final Operational Clearance
FPA	Fuel Price Adjustment
FR	Feasibility Report
FSA	Fuel Supply Agreement
GHA	Ground Handling Agreements
GMTD	General Manager Telecom District
GNPI	Gross Net Premium Income
GOI	Government of India
HS	High Sulphur
HSD	High Speed Diesel
IRDA	Insurance Regulatory and Development Authority
JV	Joint Venture
LCs	Letters of credit
LDO	Light Diesel Oil
LPG	Liquified Petroleum Gas

LTC	Leave Travel Concession
MD	Managing Director
MDP	Minimum Deposit Premium
MMPTA	Million Metric Tonne per annum
MOU	Memorandum of Understanding
MT	Metric Tonne
MW	Mega Watt
NG	Natural Gas
NIT	Notice Inviting Tender
O&M	Operation and Maintenance
OEM	Original Equipment Manufacturer
OMC	Oil Marketing Companies
OMDA	Operation, Management and Development Agreement
OPV	Oral Polio Vaccine
OSV	Offshore Supply Vessels
PF	Provident Fund
PO	Purchase Order
PPIB	Power Plant Performance Improvement Business
PPP	Public Private Partnership
PSC	Production Sharing Contract
PSU	Public Sector Undertaking
RBI	Reserve Bank of India
SFIS	Served From India Scheme
SHLS	Solar Home Lighting Systems
SMC	Safety Management Certificate
SOP	Standard of Preparation
SSAs	Secondary Switching Areas
STD	Short Term Deposits
TAC	Tariff Advisory Committee
TC	Tender Committee
USOF	Universal Service Obligation Fund
VPTs	Village Public Telephones
WHO	World Health Organisation
WTPCG	Whole Turnover Packing Credit Guarantee