

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 commencement of commercial operation	Time taken in commencement of commercial operation from receipt of aircraft in India (Days)	Delay in commencement 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-availing 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 airports¹ and one fire training centre². 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 obligation³.

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 payments¹ from the six customer airlines during April 2005 to May 2009 worked out to Rs.9.83 crore².

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.

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 leased¹ B777-200 ER aircraft. As per the CSA, UA was to provide exchange services² 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 fee³ 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 crore⁴ 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.

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 Limited¹ (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 contribution² 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 crore¹, against this the contribution recovered from employees was only Rs.1.87 crore² during the period 2006-07 to 2008-09.

There was under-recovery of contribution under CMBS of Rs.7.28 crore³ 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.

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 department¹ 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 crore² 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

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).