

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airports Authority of India

2.1 Management and Execution of Terminal Building Construction Projects

Introduction

The Airports Authority of India (AAI) came into existence on 01 April 1995 by merging the International Airports Authority of India with the National Airports Authority. The merger brought into existence a single organisation entrusted with the responsibility of creating, upgrading, maintaining and managing civil aviation infrastructure both in the air and on surface in the country. The major function of AAI is to manage the civil aviation infrastructure on the ground which accounts for 60 *per cent* of the total capital expenditure on infrastructure. AAI has 115 airports spread all over the country.

The AAI has taken up modernization and expansion of existing Terminal Buildings and construction of new Terminal Buildings at various airports. The AAI intends to create world class facilities for passengers and other users at these airports.

Audit Objectives

The audit objective of conducting this thematic study was to assess whether execution and Management of construction projects for new terminal buildings at the airports selected for audit were economic, efficient and effective.

Scope of Audit

Out of total 9 non-metro airports in the Northern Region, where cumulative project expenditure during 2006-07 to 2009-10 was more than ₹ 100 crore (approx.) and value of each completed capital work was not less than ₹ 30 crore (approx.), five airports namely Dehradun, Udaipur, Amritsar, Jaipur and Srinagar were selected for audit.

The following works taken up by AAI at these airports were selected for review in Audit:

Sl. No.	Airports	Particulars of work	Work Order No.
1	Dehradun	Construction of New Terminal Building, Sub station cum A.C. plant room, U.G. Tank, Pump room, car-park and associated works.	Work Order No. AAI/Terminal Bldg./Engg (c)/329 Dated 30.01.2008
2	Udaipur	Construction of a New Terminal Building Complex.	Work Order No. AAI/Udaipur-TB/ Engg(c)/2484 Dated: 08.11.2005)
3	Amritsar	Modular expansion of Terminal Building	Work Order No. Engg./DP/ME/ ASR/2006/2846-49 Dated 24.11.2006
4	Jaipur	Construction of New International Terminal Building and allied work	AAI/Jaipur- TB/Engg.(C) Dated : 12.07.2006

5	Srinagar	Extension and renovation of existing terminal building including internal water supply, sanitary installations, internal electrifications etc.	Work Order No. AAI/NAD / Srinagar/ TB/Engg(c)/246 Dated; 29.10.2004
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Audit Criteria

Project works mentioned under Scope of Audit were examined with reference to policy on airports infrastructure, AAI's Works Manual and Technical Instructions issued by AAI from time to time.

Audit Methodology

Audit reviewed the records relating to Minutes and Agenda Notes pertaining to meetings of the Board of Directors of AAI, Management Information Reports, norms stipulated for assessing requirements at terminal buildings at each airport, records relating to tendering process, payments released to contractors and vendors, correspondence of AAI with various parties like contractors, various agencies of Central/State Governments etc, and information as well as other relevant records obtained from AAI which were necessary for conducting this study. After comparing actual status of the work with what the AAI had envisaged, audit observations were framed.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management during the course of audit.

Audit Findings

2.1.1 Time and Cost Overruns

Before proceeding to Audit Findings given in succeeding paragraphs, the basic data of the projects undertaken at the selected airports and delay in completion of these projects needs to be referred to which is given in the Tables below.

Table 'A'
Basic data of projects reviewed

(₹ in crore)

Airport & title of the related project	Project Cost Approved by BOD with date of approval	Tendered cost	Awarded cost	Actual cost of completion	Increase in cost over initial cost approved by BOD	Increase in cost over latest cost approved by BOD
Dehradun: Construction of New Terminal Building (NTB) & allied works.	15.50 (09/03) 47.63 (11/08)**	29.86	34.64	37.14	(+) 21.64	(-) 10.49
Udaipur : Construction of NTB complex	42.88 (04/05) 46.64 (03/06)**	44.62	46.64	56.20	(+) 13.32	(+) 9.56
Amritsar: Modular expansion of terminal	54.30 (07/05) 113.01 (08/08)**	61.53	65.59	147.34*	(+) 93.04	(+) 34.33

Building						
Jaipur: Construction of New International Terminal Building & allied works.	58.47 (06/05)	58.47	63.73	76.70*	(+) 18.23	(+) 18.23
Srinagar : Expansion and renovation of existing terminal Building	22.95 (03/03) 34.96 (11/04)** 51.32 (07/07)**	28.11	36.15	52.35	(+) 29.40	(+) 1.03

(+) = increase, (-) = decrease, (*) Provisional figure subject to receipt of final bill and (**) Revised project cost

Table 'B'

Delay in completion of work

Name of Station	Date of Board Approval	Tender Opened	Date of Award	Stipulated Date of Completion	Actual Date of Completion	Delay in Months
Dehradun	(09/03)	01/08	01/08	08/08/08	15/09/09	13
Udaipur	(04/05)	09/05	11/05	17/11/06	17/04/08	17
Amritsar	(07/05)	10/06	11/06	18/10/07	30/06/09	20
Jaipur	(06/05)	04/06	07/06	21/10/07	27/06/09	20
Srinagar	(03/03)	08/04	10/04	08/11/05	31/05/09	43

The audit findings on individual projects were as below:

2.1.1.1 Dehradun

Although the Board approved (September 2003) the terminal building complex project at Jolly Grant Airport, Dehradun at an estimated cost of ₹ 48.20 crore inclusive of civil work amounting to ₹ 15.50 crore but the tenders were invited after a delay of more than four years i.e. in the month of December 2007. In the meantime the estimated cost of the project increased from ₹ 15.50 crore to ₹ 29.86 crore. The work was awarded (January 2008) to M/s Consolidated Construction Consortium Limited, Chennai (contractor) at contract value of ₹ 34.64 crore. The work was actually completed in September 2009 as against the stipulated completion by August 2008 by incurring an amount of ₹ 37.14 crore.

As per final extension of time (EOT) approved (September 2010) by AAI, delay in completion of the project was mainly due to belated receipt of drawings from the consultant, inclusion of substituted / extra items and change in the scope of work during execution. Out of total delay of 404 days in completion of the project, delay of 18 days only was attributable to the contractor. The AAI, therefore, granted EOT from 09 August 2008 to 28 August 2009 without levy of compensation and for 18 days delay beyond the above period, levied a compensation of ₹ 0.01 crore on the contractor. The Contractor raised (02 November 2010) a bill amounting to ₹ 6.89 crore towards price escalation for the EOT period which was under scrutiny (November 2010) with AAI. The AAI, as such, was liable to pay price escalation which was avoidable had the project been managed in a planned way. This indicated inefficient managerial control in implementing the project.

2.1.1.2 Udaipur

The Board of Directors of AAI approved (April 2005) terminal building complex project at Maharana Pratap Airport, Udaipur at an estimated cost of ₹ 69.45 crore inclusive of civil work amounting to ₹ 42.88 crore. The work was awarded (November 2005) on M/s Simplex Concrete Piles (India) Limited at contract price of ₹ 46.64 crore with a completion period of one year. The work could be completed on 17 April 2008 after a delay of 17 months from the scheduled date of completion. Analysis of delays by the Company revealed that delay of 89 days was on account of non availability of work fronts and 227 days towards non availability of design & drawings for which the Company granted extension of time to the Contractor.

Accordingly, AAI paid an amount of ₹ 2.31 crore towards escalation which was avoidable had the project been managed in a planned way. This indicated inefficient managerial control in implementing the project.

2.1.1.3 Amritsar

The Board of Directors of AAI approved modular expansion of terminal building project in July 2005 at an estimated cost of ₹ 80 crore inclusive of civil work amounting to ₹ 54.30 crore. The work was awarded, after lapse of more than one year to M/s. Unity Pratibha Consortium (November 2006). Against completion period of 10 months the work, however, could be completed in June 2009 after a delay of 20 months.

It was proposed to take up modular expansion of Terminal Building immediately after commissioning of phase-I terminal building which was under construction at that time. Initially the proposal was to increase the handling capacity from 500 passengers to 900 passengers, for which modular expansion of 17000 sqm. was projected considering a realistic growth rate of 12 *per cent*. Later on, the Management considered the growth rate at the rate of 20 *per cent per annum* in domestic and 30 *per cent per annum* in international passenger traffic and decided to increase the capacity to 1200 pax (passengers) with the annual capacity of handling of 20.27 lakh passengers. Accordingly it was proposed to expand the area by 32300 sqm. with suitable modifications in designs and provision of other facilities. Total passenger movement during the years 2007-08, 2008-09 and 2009-10 was 6.78, 5.73 and 6.85 lakh passengers, respectively indicating that the assumptions were far from reality and the facilities created were in excess of requirement.

Besides, changes in structural design, drawings, increase in the building layout and non-availability of work fronts resulted in delay in completion of work. The contractor was not able to start the work up to March 2007 due to (a) changes proposed causing hindrance of 93 days and (b) further delay of 78 days due to non-handing over of sites to contractor from time to time. Consequently, the AAI had to make avoidable payment of ₹ 2.62 crore towards price escalation for the work done beyond contractual date of completion. Till June 2010, the AAI had spent ₹ 147.34 crore, which was nearly 171 *per cent* in excess to the cost of the project approved initially. This was mainly due to increase in scope and deviation in scheduled quantities.

Prolonged construction activities (30 months against the stipulated completion period of 10 months) also resulted in less revenue generation from July 2007 to May 2008 to AAI. M/s. TDI International India Limited, to whom exclusive advertisement rights were

awarded refused to pay the intended license fee on the pretext that full area was not handed over and that it could not use the area due to on-going construction activities. The AAI, accordingly, agreed to curtail 50 *per cent* of license fee which resulted in revenue loss of ₹ 1.06 crore.

2.1.1.4 Jaipur

The Board approved (June 2005) construction of New International Terminal Building at a cost of ₹ 94.87 crore inclusive of civil work amounting to ₹ 58.47 crore to accommodate introduction of regular international flights by Indian Airlines since February 2002 on Dubai-Jaipur-Dubai sector and also operation of other international chartered flights. But the work was actually awarded in July 2006 after a delay of more than one year with a completion period of 15 months. The work was completed in June 2009 at the cost of ₹ 76.70 crore.

The main reasons for delay of 20 months in completion of the work were delayed submission of drawings/designs by the architectural consultant specifically appointed for the purpose, deviations in quantities executed and extra items of work. Resultantly, the AAI paid escalation of ₹ 4.47 crore for the work executed beyond scheduled date of completion. It was observed that the New International Terminal Building started operations from July 2009, for domestic flights only.

Audit observed that the international flights could not be commenced (September 2010) from the new terminal building as was envisaged and continued operating from the old building.

2.1.1.5 Srinagar

The Board approved (March 2003) expansion and renovation of existing terminal building at Srinagar Airport at an estimated cost of ₹ 59.39 crore inclusive of civil work amounting to ₹ 22.95 crore. The work was awarded ₹ 36.15 crore to M/s. Vij Construction Limited in October 2004, after a delay of more than one and half years, with a completion period of 12 months. The work was completed in May 2009 after an inordinate delay of 43 months. The main reasons of delay were delayed submission of drawings, non-availability of work fronts, post award deviations and increase in the scope of work due to introduction of extra items. Further, the AAI paid an escalation of ₹ 1.36 crore towards price escalation for the work done beyond contractual date of completion. This indicated inefficient managerial control in implementing the project.

2.1.2 Idling of Assets

2.1.2.1 Dehradun

- The Government of Uttarakhand (GoU) approached (March 2003) the AAI to upgrade Jolly Grant Airport at Dehradun for operation of AB-320/B-737-800 type of aircrafts. The GoU provided land measuring 173 acres free of cost for development of airport. The GoU also assured to provide a four lane approach road between the airport and the city and a dedicated 11 KV feeder electricity line up to airport complex for effective utilisation of facility so created. Although it was economically unviable, the AAI took up the project, on the request of GoU and constructed (September 2009) the new terminal building costing ₹ 37.14 crore.

It was observed that the four lane approach road to connect newly constructed terminal building, as assured by the GoU, was not provided till June 2010 which resulted in idling of newly constructed terminal building. It was further observed that instead of pursuing with the GoU for providing feeder connection, the AAI paid (August 2008) an amount of ₹ 1.94 crore to Uttarakhand Power Corporation Limited to execute the work of laying feeder line as deposit work.

- Since the newly constructed Terminal Building was not put to use, the electricity consumption was below the minimum guaranteed load which resulted in wasteful expenditure of ₹ 0.02 crore (approx) per month from October 2009 onwards.
- Further, larger period of 'Defect Liability Period' of one year had elapsed even before the terminal building could be operationalised (July 2010).

2.1.2.2 Udaipur

The AAI procured (July 2009) two passenger Boarding Bridges (PBB) at a cost of ₹ 3.18 crore. It was observed that one of the PBBs installed in September 2009 could not be made operational (July 2010) due to non-availability of push-back arrangement and the other was awaiting installation as the apron* on which it was to be installed was not ready (July 2010). Thus the intended purpose of providing better passenger facilities could not be achieved and investment of ₹ 3.18 crore remained idle for more than one year.

2.1.3 Non-Adherence to AAI's Works Manual

Audit noticed that AAI did not follow its own Works Manual as may be seen from the following cases:

2.1.3.1 Amritsar

As per Para 10.2.1(ii) of the Works Manual, the scope of work once approved would stand frozen and would not be changed without prior clearance of the competent authority. It was, however, observed that the scope of work in case of "Modular expansion of Terminal Building" work at Amritsar Airport, awarded in November 2006 with due approval of the Board was changed (February 2007) substantially from 17000 sqm approved initially to 32300 sqm, due to change in design, scope of work etc. without obtaining prior approval of the Board. The Board's ex-post facto approval in the matter was, however, obtained in August 2008.

2.1.3.2 Jaipur

Para 9.10.1 of AAI Works Manual stipulated that in case the actual expenditure exceeded the original technical sanction by more than 10 *per cent* then revised technical sanction from competent authority would be required. The original technical sanction for the work of construction of new terminal building and allied works was for an amount of ₹ 58.47 crore. Although, the cumulative cost of the work, as per pre-final bill submitted (May 2010) by the contractor at ₹ 75 crore exceeded the 10 *per cent* limit stipulated as per above mentioned Para 9.10.1, the Management did not obtain revised technical sanction.

* *A defined area in an airport intended to accommodate aircraft for purposes of loading or unloading passengers or cargo, fuelling, parking or maintenance.*

2.1.3.3 Srinagar

The Works Manual of AAI laid down limits for deviation in quantities given in the contract as 100 *per cent* for below ground level (foundation work) items, 30 *per cent* for above ground level items and overall deviation limit of 30 *per cent* of the contract value. Audit observed that no such limits were fixed in the contract relating to expansion and renovation of existing terminal building though the same were prescribed by AAI in other similar contracts. There were abnormal deviations ranging between (-) 100 *per cent* and 3000 *per cent*, in the quantities estimated and actually executed. Audit observed that incorporation of permissible deviation as “unlimited” in the contract was not prudent as without stipulating the limits, execution and Management of the project in an economic, efficient and effective manner could not be ensured.

2.1.4 Non-Adherence to conditions of Agreement

2.1.4.1 Dehradun

- It was observed that as per item number 9.2 of Special Condition of Contract (SCC), labour welfare cess was required to be levied and recovered from the contractor at the rate of one *per cent* but the same was neither recovered nor deposited with the respective department.
- There was vast deviation in actual *vis-à-vis* the estimated quantities to be executed. In 60 items of Bill of Quantities, the deviation was beyond the limits specified in the contract and out of that, deviation in three items was more than 1000 *per cent* [11018 *per cent* in item no. 1.1, 3540 *per cent* in item No. 7.18(b) and 1915 *per cent* in item 7.17(b)] which indicated that the estimates prepared were unrealistic and changing the scope of work substantially after award of work was not justifiable.

2.1.4.2 Udaipur

The construction of the New Terminal Building was completed on 17 April 2008, after a delay of 516 days. As analysed by the Management while approving final EOT, out of delay of 516 days 227 days were attributable to delayed furnishing of structural design and drawings by the consultant appointed by the AAI. It was observed that despite the fact that delayed furnishing of drawings by the consultant contributed substantially to the delayed completion of the project, the liquidated damages amounting to ₹ 0.11 crore recoverable under the agreement were not recovered.

2.1.4.3 Srinagar

While approving final EOT, the AAI considered delay of 184 days towards non-working season (winter season) in the valley. As the contract entered in to for expansion of NTB at Srinagar did not contain any consideration on account of weather conditions, the above decision of the AAI was not prudent.

2.1.5 Undertaking Unviable Projects

The AAI formulated its ‘Policy on Airport Infrastructure’ in December 1997. Sub-para (7) of Para 14 titled ‘Financing of Airport Infrastructure’ of the said policy provided that AAI would only invest in projects with demonstrated economic viability and positive rate of return and wherever Government compels AAI to invest in a non-viable project for the fulfilment of social objectives, the initial capital cost of the project and the recurring

annual loss sustained by AAI on this account, would be reimbursed by the concerned Government. The AAI, however, did not follow its own policy in the following cases test checked in Audit:

2.1.5.1 Dehradun

The Dehradun Airport, as already discussed in para 2.1.2.1, was a loss making project which the AAI took up at the request of GoU. The internal rate of return (IRR) of the expansion project was worked out at (-) 15 *per cent*. The Board suggested (March 2003) that AAI should seek directions from the MoCA for financing the project through budgetary grant. The AAI, accordingly took up (April 2003) the matter with MoCA in response to which the MoCA directed (August 2003) AAI to consider development of Dehradun airport in phases without government funding of the project. The AAI, consequently, decided to take up the work, which was having negative IRR, against its own Policy on Airport Infrastructure. The loss estimated by the AAI over the period of 15 years from 2006-07 to 2020-21 worked out to ₹ 43.98 crore.

2.1.5.2 Srinagar

The IRR of Srinagar Airport after execution of project worked out at (-) 16 *per cent*, was a loss making airport. The Finance Wing of AAI recommended that the Government may be approached for re-imburement of the amount. However, the Board approved the project, in accordance with the GOI directives, as socio economic development project in contravention of its own Airport Infrastructure policy. The estimated loss during the period of 15 years from 2006-07 to 2020-21 as per AAI's own assessment worked out to ₹ 54.67 crore.

Conclusions

- There were time and cost overruns due to delayed submission of drawings, non-availability of work fronts in time, increase in the scope of work due to frequent changes in designs and drawings after award of work which led to extra expenditure towards escalation.
- Lack of effective pursuance with Central and State Governments to get resource support for civil aviation infrastructure by way of finance, road connectivity and electricity.
- AAI took up the projects with negative IRR without any assurance from State/Central Government, in contravention of AAI's own Policy on Airport Infrastructure, to get reimbursement of the cost incurred as well as recurring annual loss sustained by it.

The matter was reported to Ministry in September 2010; reply was awaited (February 2011).

Recommendations

- ***AAI should strictly enforce clauses of Works Manual to check time/cost overrun in project execution and adhere to Airports Infrastructure Policy.***

- ***AAI should pursue effectively the commitments made on road connectivity and electricity by the state government of Uttarakhand.***

2.2 Procurement of Communication, Navigation and Surveillance Equipments

Introduction

Airports Authority of India (AAI) is the Air Traffic Service Provider over Indian Air space. AAI manages the Indian air space covering an area of 2.8 million square nautical miles of land mass and the adjoining oceanic area as recognized by International Civil Aviation Organization (ICAO). Communication, Navigation, Surveillance (CNS) and Air Traffic Management (ATM) are the vital elements for safe and reliable air traffic services over designated air space. AAI provides CNS/ATM facilities at 115 airports (75 Domestic Airports, nine International Airports, 22 Civil Enclaves¹ inclusive of three International Airports and nine Private Airports) located all over the country.

The AAI is taking up on a regular basis up-gradation of various airports which inter alia includes provision of navigational aids and communication facilities. The CNS Wing of the Authority assesses requirements of various equipments on need basis after considering life span of existing facilities. The CNS wing is also responsible for execution and up-gradation of the systems related to CNS infrastructure, electronic security equipments and miscellaneous equipments required for disseminating flight related information. The technical evaluation of the systems/ equipments proposed to be procured is carried out on the basis of International Civil Aviation Organization (ICAO)'s Standards & Recommended Practices (SARPs) and Civil Aviation Regulations (CARs) of Director General of Civil Aviation (DGCA). AAI levies Route Navigation Facility Charges (RNFC) at all airports and Terminal Navigation Landing Charges (TNLC) at International Airports and civil enclaves for providing CNS/ATM facility. The AAI collected ₹ 1518.92 crore, ₹ 1589.89 crore and ₹ 1782.57 crore towards RNFC/ TNLC during the years 2007-08, 2008-09 and 2009-10 respectively.

As per the guidelines issued by Ministry of Civil Aviation (August 2004), the AAI was responsible to procure, install, commission, replace and upgrade the CNS/ATM equipments as well as fund all the expenses thereon in respect of all existing and new Greenfield² airports not owned and operated by AAI. Subsequently, in May 2008, the Greenfield Airport Policy was revised by the Union Cabinet which stated that CNS and ATM facilities are to be provided on a cost recovery basis to new airports (Green Field) set up by private operators. As regards other airports owned by AAI, the CNS/ATM services were to be provided by the AAI at its own cost.

Audit observed that the AAI incurred losses during the period 2007 to 2010 in managing CNS/ATM systems. The details are discussed in the succeeding paragraphs.

Scope of Audit

The audit of AAI is conducted under Section 19 (2) of the CAG's (Duties, Powers and Conditions of Service) Act 1971. The Audit covered procurement, installation and

¹ *Civil enclaves are airports under the control of navy/defense authorities (Goa, Port Blair and Srinagar)*

² *Greenfield Airport is a new airport built at a new location.*

commissioning of various equipments of CNS/ATM by AAI during the period of three years ended on 31 March 2010.

Audit Objectives

The objective of thematic audit was to ascertain whether:

- Procurement of CNS/ATM systems was done judiciously and economically.
- Installation and commissioning of CNS/ATM systems at various airports was done as per plan.
- CNS/ATM systems were utilized effectively.

Audit Criteria

Procurement, installation, commissioning and utilisation of CNS/ATM equipments was reviewed mainly with reference to Detailed Project Reports (DPRs) and Feasibility Reports of projects, norms for assessing the requirement of CNS/ATM equipments at various airports, Civil Aviation Regulations of DGCA, Standard and Recommended Practices (SRPs) of ICAO, CNS Manual, CNS/ATM agreements entered into by AAI with airport operators, terms and conditions laid down in the tender, purchase orders placed with the suppliers etc.

Audit Methodology

The audit reviewed Agenda Notes and Minutes of Meetings of Board of Directors of AAI, Management Information Reports, records relating to compliance of rules, regulations and guidelines issued from time to time by ICAO, tender and procurement documents, bills and payment vouchers, correspondence by the AAI with Customs Department, Ministry of Civil Aviation (MOCA), suppliers and contractors etc.

Audit was conducted during the period 30 June 2010 to 20 August 2010. The audit findings were framed after comparing the actuals with what was envisaged.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management at all levels during various stages of Audit.

Audit Findings

2.2.1 Procurement

2.2.1.1 Procurement of CNS/ATM equipments at Greenfield (New) Airports

AAI entered into agreements with Hyderabad International Airport Limited (HIAL) and Bangalore International Airport Limited (BIAL) on 6 April 2005 and 11 August 2005, respectively. As per the agreement, AAI was to provide, maintain and operate CNS/ATM services at all times and at its own cost, as per MOCA's prevailing guidelines. HIAL and BIAL started their commercial operations from 23 March 2008 and 24 May 2008, respectively. AAI incurred capital expenditure of ₹ 151.70 crore and revenue expenditure of ₹ 30.19 crore at both the airports till 31 March 2009.

Subsequently, the Ministry of Civil Aviation revised its guidelines (May 2008) regarding CNS/ATM services to be provided in the existing and Greenfield (New) airports not

owned and operated by AAI. As per revised guidelines, the cost of services was to be borne by airport operators instead of by AAI.

However in the case of existing agreements with HIAL and BIAL, the agreement provided that “no modification, amendment or other change will be binding on any party unless consented to in writing by both parties”. Accordingly, the cost of CNS/ ATM services in respect of HIAL/BIAL airports would continue to be met by AAI.

The Management replied (November 2010) that since CNS-ATM agreements with HIAL/BIAL were signed by AAI well before new Greenfield Airport Policy, AAI was considering to take up the matter with the MOCA as to whether the new policy required any change in the existing CNS-ATM agreements with HIAL/BIAL.

2.2.1.2 Non adherence to the delivery schedule

CNS (Planning) Directorate places purchase order for the procurement of various CNS/ATM equipments. As per the delivery schedule specified in the purchase order, the equipments were to be supplied in different lots for installation and commissioning. It was observed that the supplier supplied all the equipments in a single lot much before the agreed delivery schedule. AAI accepted the equipments before the scheduled date, without demanding extension of the warranty period. Further, the AAI released the payments in one go instead of in a phased manner. Audit observed that accepting of all the equipments in a single lot, instead of in a phased manner led to advance delivery of equipment even before the site was ready for installation. This resulted in reduction or even extinction of the warranty period provided in the agreement to the detriment to AAI.

Audit observed that the schedule for supply and delivery should have been synchronized with other ancillary and preparatory work to avoid the above situation. The Management did not even insist upon the supplier to follow the staggered schedule given in the agreement, which though in itself did not synchronize with the installation/commissioning schedule. Further, there was no enabling clause in the purchase orders to avoid or defer payment for equipments received ahead of scheduled delivery date. This resulted in blockage of funds of ₹ 12.89 crore and consequential loss of interest amounting to ₹ 0.38 crore.

The Management stated (December 2010) that corrective measures would be taken for future procurements.

2.2.1.3 Placing of Repeat Order

AAI placed repeat purchase order (October 2007) for seven Distance Measuring Equipment-Low Power (DME-LP) at ₹ 0.39 crore per DME-LP against the purchase order placed on M/s. Thales in October 2006. Tenders invited subsequently, in January/September 2008, for procurement of 8 DME-LP indicated rate of ₹ 0.30 crore per DME-LP.

Audit observed that as per Clause 7(2)(3)(vi) of Delegation of Powers, CNS Department/Directorate was required to give a certificate that there was no downward trend of prices of the items covered in the proposed repeat order compared to the last purchase order. Further, the priority based repeat order equipments were customs cleared (22 December 2008) after a delay of seven and half months from the date of arrival (05 May 2008) at Mumbai Port by paying interest of ₹ 0.06 crore, demurrage of ₹ 0.03 crore and detention charges of ₹ 0.04 crore (total ₹ 0.13 crore). This resulted in loss of ₹ 0.76 crore (being the

difference in the purchase price of 7 DME-LP of ₹ 0.63 crore + ₹ 0.13 crore paid towards detention & demurrages)¹. Had AAI procured all 15 DME-LP by inviting open tenders instead of placing repeat order it could have saved ₹ 0.76 crore.

The Management replied in December 2010 that as per the delegation of powers, indenter was required to give a certificate that there was no downward trend for items proposed for repeat order. In the instant case based on the prevailing rates for similar items a certificate to this effect was given by CNS (Planning) department.

The reply of the Management was not acceptable in view of the fact that instead of confirming the prevailing rate, the indenter i.e. CNS (Planning) department considered the willingness given by M/s Thales to supply at the rates of previous order, which could not be considered prudent.

2.2.1.4 Avoidable Payment of detention/demurrage charges of ₹1.40 crore

Audit observed that there were abnormal delays in getting the equipments cleared from Customs leading to payment of ₹ 1.40 crore by AAI during the period 2007-08 to 2009-10 towards detention/demurrage charges as noticed in 11² cases test checked in Audit. Levy of detention/demurrage charges was mainly on account of delay in obtaining import/Wireless Planning Cell (WPC) License by AAI, delay in getting duty credit license and release advice, non-availability of customs appraiser, bank endorsed shipping documents etc. The reasons cited for delay in customs clearance could have been avoided, had prompt and timely action been taken by AAI.

The Management while admitting the audit observation stated (December 2010) that AAI would prepare a set of guidelines for processing of clearance of imports to avoid delays leading to payment of demurrages.

2.2.1.5 Application of different rates of customs tariff for the same item at various airports

The AAI placed two purchase orders, one on M/s Frequents GmbH, Germany on 30 April 2007 and other on M/s Schmid, Zurich on 08 January, 2008 for supply of Voice Communication Control System components. It was observed that against purchase order of April 2007, delivery was made at Chennai Airport and no customs duty was paid. However, against the second purchase order for identical item, while no customs duty was paid for the item delivered at Mumbai Airport, 10 percent duty was paid for the item delivered at Delhi Airport.

As observed by Audit, equipments usually procured by AAI were not specifically classified under the Customs Tariff. Therefore, different rates of duty were applied for identical equipment by the customs officials of different airports. The AAI, therefore, should have approached the appropriate authority of the Customs Department/Directorate

¹ Difference of purchase price (₹ 0.39 crore- ₹ 0.30 crore) x 7= ₹ 0.63 crore

² (i) P.O. No.19/2007-08/PROC/ILS-7Nos./2007 dated 03-01-2008 (ii) P.O. No. 12/2007-08/PROC/DME/2005 dated 09-10-2007 (iii) P.O.No. 8/2007-08/PROC/ILS/2005 dated 07-07-2007 & 31-07-2007 (iv) P.O. No.06/2008-09/PROC/FIDS/2007 dated 09-8-2008 (v) P.O.No. 12/2006-07/PROC/ILS/2005 dated 11-01-2007 (vi) P.O.No. 06/2009-10/PROC/HFT//2008 dated 31-08-2009 (vii) P.O.No. 08/2008-09/PROC/DME/2008 dated 24-09-2008 (viii) P.O.No. 05/2008-09/DATIS/2007 dated 25-7-2008 (ix) to (xi) PO No.01/2008-09/PROC/DVOR/2245 DATED 28-4-2008.

of Foreign Trade for proper classification of item under Customs Tariff, prior to the procurement of the equipments.

The Management while admitting the audit observation stated (December 2010) that it would approach appropriate authority wherever such classification was not available in customs tariff to avoid multiplicity of classification at different airports.

2.2.2 Installation, Commissioning and Utilization of CNS/ATM equipments

The AAI planned to replace/upgrade the existing equipments by introducing new equipments. However, this process was either delayed or the equipments could not be put to use due to procedural problems such as, non-synchronization of allied activities and poor contract Management as discussed below:

2.2.2.1 Delay in installation and commissioning of Dedicated Satellite Communication Network (DSCN)

The delay in installation and commissioning of DSCN had already been commented in the Report of the Comptroller and Auditor General of India, Union Government (Commercial) No. 17 of 2007. Though the project was expected to be completed by October 2006, however, as on date (June 2010), out of the 80 airports, antennas were installed on 74 airports, of which 62 were operationalised (16 sites operationalised in March 2009 only). Thus the intended objective of upgrading communication network by October 2006 could not be achieved.

The Management replied (December 2010) that the supplier had been providing the warranty support till the date of commissioning.

The above contention of the Management was not acceptable as the fact remained that inordinately delayed commissioning of DSCN deprived AAI of the benefit of fully operational high speed digital network at these airports.

2.2.2.2 Delay in installation and commissioning of Voice Communication and Control Systems (VCCS)

Voice Communication and Control Systems are used for carrying out smooth Air Traffic Control (ATC) operations. The Authority placed purchase order (01 July 2009) on M/s. Schmid Telecom A.G. Switzerland for supply, installation and commissioning of 30 Nos. of Voice Communication and Control System (VCCS) at various airports. The equipments arrived at Chennai Airport on 21 December 2009 which was to be installed by 21 February 2010.

Audit observed that although the tender process was started as early as in April 2008 and the purchase order was placed on 01 July 2009, the AAI gave directions to all the airports identified for installation and commissioning of VCCS only on 07 October 2009. Thus there was abnormal delay in finalizing the works to be carried at the various locations for installation and commissioning of the equipments which led to the delay. Out of 30 VCCS equipments to be commissioned, only nine VCCS could be commissioned by July 2010.

The Management replied (December 2010) that as the delay was on the part of the supplier in installation and commissioning, liquidated damages as per the terms of the purchase order was being recovered. However the fact remained that the envisaged benefits of VCCS could not be achieved.

2.2.2.3 Delay in installation, testing and commissioning of Advanced Surface Movement Guidance and Control System (ASMGCS)

ASMGCS supports surveillance, routing, guidance and control functions for authorized aircrafts and vehicles to manoeuvre safely and effectively on the movement area. The AAI placed purchase order (15 April 2008) on M/s Holland Institute of Traffic Technology B.V, Netherlands for supply, installation, testing and commissioning of ASMGCS for Chennai, Mumbai and Kolkata airports at a total cost of EURO 45,77,726 and ₹ 1.09 crore. All the equipments were cleared by 12 June 2009.

Audit observed that:

- Though the equipments for Chennai arrived by 06 January 2009, Wireless Planning Cell (WPC) license issued by the Ministry of Telecommunication required for the import of ASMGCS was received only on 06 February 2009. The delay in receipt of WPC license resulted in delay in clearance of imported goods.
- The ASMGCS were to be installed at Chennai, Mumbai and Kolkata by January 2009, March 2009 and May 2009 respectively. However; the site preparedness work was still (July 2010) in progress. As per the terms and conditions of the purchase order, the warranty for the equipments was 12 months from the date of installation or 18 months from the date of shipment whichever was earlier. The dates of last shipment for Chennai, Mumbai and Kolkata were 20 December 2008, 19 December 2008 and 17 March 2009, respectively. Thus the warranty expired even before installation of the three equipments. Further, delay in commissioning of these equipments resulted in blocking up of funds of ₹ 16.29 crore (₹ 13.26 crore paid to the supplier and ₹ 3.03 crore paid as customs duty) since May 2009 without the desired benefit to AAI.

The Management replied (December 2010) that it was considering to take up the matter for extension of warranty with the supplier.

2.2.2.4 Delay in receipt, installation & commissioning of Doppler Very High Frequency Omni Directional Radio Range (DVORs)

AAI is taking up on regular basis up-gradation of various airports which inter alia includes provision of navigational aids to enable these airports to handle various types of aircrafts under adverse weather and terrain conditions. DVOR is one of the crucial aids which assist the pilots in homing* the aircraft. The installation of DVOR is linked with Distance Measuring Equipment (DME).

The AAI placed (October 2006) order for supply of 40 DMEs on M/S Thales, Germany. Out of these 40 DMEs [26 High Range DMEs meant to be installed along with DVORs and 14 Low Range DMEs were meant to be installed along with Instrument Landing System (ILS)]. However, the order for supply and installation of DVORs was placed only in April 2008.

Out of 40 DMEs procured, 12 high range DMEs were commissioned between January 2008 and February 2010 and 14 LP DMEs between September 2007 and May 2010. Thus

* A process of navigation by which a destination is approached by keeping some navigation parameters constant.

14* high range DMEs were awaiting installation and utilization since February 2008. As stated above the installation of DVOR was linked with installation of DME, however, the Company placed order for supply & installation of 22 DVOR after a delay of one and half year after placing order for DMEs in October 2006. Against the ordered quantity of 22 only 16 DVORs were received till 21 May 2010. Out of these 16, only 3 DVORs were commissioned (February 2010) and the remaining 13 DVORs were awaiting commissioning due to non readiness of site, non receipt of DGCA approval etc.

Thus procurement of the DVOR equipments even before completion of site preparedness work resulted in blocking up of ₹ 1.75 crore without the desired benefit to the Authority.

Further, due to improper planning and co-ordination, 14 High Range DMEs were lying idle for want of installation and utilization since February 2008, resulting in blocking up of funds amounting to ₹ 4.99 crore.

The Management stated (December 2010) that DVOR and DME-HP would be procured together in future.

2.2.2.5 Delay in installation and commissioning of Flight Information Display System (FIDS) and Instrument Landing System (ILS)

The terms and conditions contained in the purchase order for supply, installation, testing and commissioning of FIDS and ILS provided 18 months warranty from the date of dispatch or 12 months from the date of commissioning, whichever, was earlier.

It was noticed in audit that even though these equipments were received within the delivery schedule, due to delay in site preparedness work by the AAI, these equipments could not be commissioned within the warranty period. Most of the equipments were awaiting (August 2010) commissioning even after lapse of warranty period as detailed below:

Name of equipment	Date of order (quantity in Nos.)	Name of supplier	Order value	Date of dispatch of last lot	Date of receipt	Date of commissioning
FIDS	19-8-08 (10)	M/s Solari Di Udine, SPA, Italy	Euro 14.03 lakh	29-12-2008	29-01-09	None was commissioned (8/2010)
ILS	11-01-07 (08)	M/s. Thales ATM, Germany	US \$ 15.03 lakh	04-9-2007	22-10-07	Only 08 were commissioned within warranty period and the remaining were not commissioned till August 2010.
	31-7-07 (04)	--do--	US \$ 7.98 lakh	22-3-2008	01-5-08	
	3-01-08 (9)	--do--	US \$ 18.40 lakh	31-3-2008	28-4-08	

Thus, inordinate delay in completion of site preparedness work led to non-commissioning of equipments within warranty period, which consequently, deprived AAI of getting warranty benefits in respect of these equipments.

The Management while admitting the above observations stated (December 2010) that implementation of terminal building project had been the major cause of delay in

* 2 DMEs were received in December 2007 and 12 DMEs in February 2008

installation and commissioning of FIDS. AAI was considering a procedure linking the supply of FIDS with the completion of terminal building project in future. Further, they were also considering a procedure to ensure that procurement action was initiated only after completion of site preparedness works and receipt of consent from Indian Air Force in the case of civil enclaves.

2.2.2.6 Payment of Spectrum Charges

AAI pays spectrum/license fee to the Ministry of Communication for the operation of DSCN, DME, ASMGCS etc. The fee has to be paid from the date of issue of the license irrespective of whether the equipments had been put to use or not. The amounts of spectrum charges paid were as follows:

Name of equipment/system	Number of equipment/system	Period of delay	Amount (₹ in crore)
DSCN	80	2006 to 2009	10.01
ASMGCS	3	2009 to 2010 (August)	0.51
HP DME	14	2009 - 2010	1.26
Total			11.78

Thus, due to delay in installation and commissioning of these equipments, as brought out in Para 7.2.1 (for DSCN), Para 7.2.3 (for ASMGCS) and Para 7.2.4 (for HP DME), the AAI did not get any benefit of spectrum charges of ₹ 11.78 crore paid by it to the Ministry of Communication.

The Management stated (December 2010) that a system would be devised to synchronise procurement of equipment with sanction of spectrum to avoid payment during period of non-usage of facility.

Conclusion

There was lack of synchronization of activities in procurement of equipments, site preparedness and installation and commissioning. This resulted in payment of demurrage charges, lapse of warranty period even before installation and commissioning of equipments and delay in getting the intended benefits of up-graded technology.

Further, the AAI could not make use of spectrum charges/license fees of ₹ 11.78 crore paid by it to the Ministry of Communication, Department of Information Technology due to non utilisation of equipments. It was observed that the CNS/ATM agreements entered into with the HIAL/BIAL were not financially favourable to AAI.

The matter was reported to Ministry in September 2010; reply was awaited (February 2011).

Recommendations

- ***All activities necessary for installation and commissioning of equipments should be synchronized with the procurement of equipments.***
- ***Procedural formalities with regard to imports should be completed in time to avoid demurrage.***

2.3 Implementation of Operation, Management and Development Agreement entered into by Airports Authority of India with Delhi International Airports (P) Limited

Introduction

In September 2003, the Government of India decided to restructure Delhi Airport to develop it as a world class airport by involving private sector. The reason for involving private sector was to arrange huge capital investment needed for development of the airport. Accordingly, Airports Authority of India (AAI), in the capacity of State Promoter signed Operation, Management and Development Agreement (OMDA) with Delhi International Airport Private Limited (DIAL), a Joint Venture Company (JVC), on 4 April 2006. As per shareholding pattern of the JVC, the State Promoter (AAI) has equity share of 26 *per cent* while private promoters including foreigners, led by GMR Group, has equity share of 74 *per cent*.

As per Chapter XVIII of OMDA, the term of concession granted to DIAL is for 30 years. Further, Chapter XI of OMDA provided that DIAL shall pay to AAI, an annual fee during the term of OMDA, at the rate of 45.99 *per cent* of the revenue of DIAL. After implementation of OMDA, Indira Gandhi International Airport (IGIA) would have capacity to handle 100 million passengers annually by year 2030. DIAL commissioned Terminal-3 or T-3 on 3 July 2010 at IGIA which is capable of handling A 380 aircrafts.

Audit Objectives

The objective of the thematic audit was to evaluate implementation of OMDA as per laid down terms and conditions entered for better management of the airport and services to the passengers.

Scope of Audit

The audit of AAI is conducted under section 19(2) of the CAG (Duties Powers and Conditions of Service) Act 1971. This thematic audit covers implementation of the terms and conditions laid down in OMDA for the period from May 2006 to March 2010.

Audit Criteria

Audit of implementation of OMDA was carried out with reference to the terms and conditions laid down in the agreement regarding man power services, revenue sharing arrangements and other related issues.

Audit Methodology

The audit included examination of the records maintained at the OMDA Monitoring Cell, Independent Engineer's Report, Independent Auditor's Report, MIS Returns, and records and information obtained by issuing audit requisitions/ enquiries.

Acknowledgement

Audit acknowledges the co-operation and assistance extended by the Management at all levels, at various stages of audit.

Audit Findings

Audit has examined the issues of Revenue Sharing (Chapter XI), Operation Support (Chapter VI) and other issues related to implementation of OMDA. The following are the audit findings:

2.3.1 Revenue Sharing

As per the Article 11.1.2.1 of OMDA, DIAL shall pay to AAI an annual fee at the rate of 45.99 per cent of the projected revenue as set forth in the Business Plan. Further, Article 11.2.2 provided that the Annual Fee shall be payable in twelve equal monthly installments on or before the 7th of the month. Further, in the event that in any quarter, the actual revenue exceeds the projected revenue, then DIAL shall pay to AAI the additional annual fee attributable to such difference between the actual quarterly revenue and the projected quarterly revenue within 15 days of the commencement of the next quarter. Article 11.1.2.3 further states that if the actual revenue in any quarter is greater than 110 per cent of the projected revenue for such quarter, DIAL shall pay to AAI interest for difference between the actual revenue and the projected revenue at the rate of State Bank of India prime lending rate plus 300 basis points (bps). Accordingly, three, two and one months' interest shall be calculated on 1/3rd of the difference between the projected revenue and the actual revenue.

The projected revenue and actual revenue earned by DIAL for the four years ended 31.03.2010 is given below:

Year	2009-10		2008-09		2007-08		2006-07	
	Revenue (DIAL)	AAI Share 45.99%	Revenue (DIAL)	AAI Share 45.99%	Revenue (DIAL)	AAI Share 45.99%	Revenue (DIAL)	AAI Share 45.99%
Projected Revenue	1031	474.16	937.97	431.37	755.19	347.31	582.09	314.39
Actual Revenue	1171.81	538.92	958.65	440.88	875.65	402.71	591.38	271.98

(₹ in crore)

From the above table, it is seen that actual revenue had increased over the projected revenue every year during the period from 2006-07 to 2009-10.

In this connection following observations are made:

2.3.1.1 Loss due to defective revenue sharing by DIAL with Joint Ventures (JVs)

Chapter II of the agreement deals with the scope of Grant. Under clause 2.1.1 of the said Chapter, the AAI granted to the DIAL the exclusive right and authority to undertake some of the functions of AAI viz. operation, maintenance, development, design, construction, upgradation, modernization, finance and management of the IGIA and to perform services and activities constituting Aeronautical Services and Non-Aeronautical Services. As per clause 2.1.2(iv) of the agreement the AAI recognized the exclusive right of DIAL to contract and /or sub-contract with third parties to undertake the above functions on behalf of DIAL.

DIAL formed 11 JVs* to undertake the above functions wherein equity shareholding of DIAL ranged from 26 per cent to 50 per cent and revenue share agreed to by DIAL with these JVs ranged from 10 per cent to 61 per cent of the gross revenue generated by these JVs.

Audit examined cargo and car parking operations undertaken by DIAL through following JVs:

Sl. No.	Name of JV	Type of business	Date when formed(started operation)	Percentage of share held by DIAL in equity	Revenue Share of DIAL (%)	
1	M/s. Celebi Delhi Cargo Terminal Management India Pvt. Limited (Celebi)	Cargo-Brownfield	August 2009 (November 2009)	26	36	
2	M/s. Cargo Service Centre (India) Pvt. Ltd (CSCL)	Cargo-Greenfield	November 2009 (April 2010)	26	24	
3	M/s. Delhi Airport Parking Services Pvt. Limited (DAPSL)	Car Park	March 2010 (July 2010)	49.90	Contract year	Per cent
					Year 1-3	10
					Year 4-5	15
					Year 6-10	20
					Year 11-25	40

Audit observed that while DIAL was required to pay to AAI, an annual fee at the rate of 45.99 per cent of its gross revenue, DIAL's agreement with the JVs provided for sharing of gross revenue on the contracted out services which resulted in substantial reduction in annual fee receivable by AAI as detailed in succeeding paragraphs.

Audit analysis revealed that though tonnage of cargo handled by DIAL during December 2009 to November 2010 increased by 24.88 per cent over the preceding period of one year i.e. December 2008 to November 2009, the cargo revenue of DIAL decreased by 37.08 per cent when the cargo operations were undertaken by the JVs. Similar reduction in revenue from car parking operations undertaken by the JV for the period July 2010 to December 2010 was observed. The amount of reduction in revenue share of AAI from cargo and car parking operations undertaken by respective JVs for the period December 2009 to December 2010 worked out to ₹ 103.29 crore as under:

* (i) Travel Food Services (Delhi T3) Pvt. Ltd.(ii)Devyani Food Street Pvt. Ltd.(iii) Delhi Select Services Hospitality Pvt. Ltd. (iv)Delhi Duty Free Services Pvt. Ltd.(v)Delhi Airport Parking Services Pvt. Ltd.(vi)Delhi Aviation Fuel Facility Pvt. Ltd.(vii)Celebi Delhi Cargo Terminal Management India Pvt. Ltd.(viii)Delhi Cargo Service Centre Pvt. Ltd.(ix)Wipro Airport IT Services Ltd.(x)Tim Delhi Advertising Pvt. Ltd.(xi)Delhi Aviation Services Pvt. Ltd.

(₹ in crore)						
Business	Gross revenue of JV during the period up to 31-12-2010	Gross Revenue from business	Revenue accounted for as per concession agreements with these JVs		45.99 Per cent of gross revenue (Col 3 X 45.99 per cent)	Difference (Col. 6- Col. 5)
			DIAL	AAI (45.99 per cent X Col. 4)		
1	2	3	4	5	6	7
Cargo	Celebi 237.38	330.22	124.28	57.15	151.87	94.72
	CSCCL 6.48					
Car Parking	DAPSL 21.48	21.48	2.85	1.31	9.88	8.57
TOTAL		351.70	127.13	58.46	161.75	103.29

The independent auditors had also qualified in their quarterly reports that after handing over of cargo business to the newly formed JVs, revenue share to AAI was reduced which required to be looked into by AAI in terms of OMDA. Audit did not find on records, corrective action initiated / taken up, if any, by AAI on the independent auditors report.

The Management stated (March 2011) that car park and cargo concession involved capital investment on infrastructure by the concessionaires which was factored in the revenue share; that DIAL entered into concession arrangements with bidders who quoted the highest revenue share.

The reply of the Management was not acceptable as the agreement provided for payment of gross revenue of DIAL at the given percentage of 45.99 to AAI in consideration of Grant of exclusive rights to DIAL of the stated functions including non-aeronautical functions of AAI. The agreements of DIAL with its JVs were not in consonance with said clause of OMDA relating to Annual Fee. AAI should have ensured that 45.99 *per cent* of the gross revenue as stipulated was received while DIAL concessioned out the non-aeronautical services. Failure to do so resulted in AAI sustaining loss of ₹ 103.29 crore till December 2010. The AAI was bound to suffer further losses during the currency of concession agreements with the JVs in their present form.

2.3.1.2 Non levy of interest for excess of annual fee received against the projected annual fee.

On examination of projected annual fees and annual fee actually received, it was noticed that actual revenue in the quarters ended on 30 September 2007, 31 December 2007, 31 March 2008 and 31 March 2010 was greater than 110 *per cent* of projected revenue for such quarters, However, AAI had not levied and recovered from DIAL any interest as stipulated in Article 11.1.2.3 of OMDA. Thus the AAI had sustained a loss of interest of ₹ two crore.

The Management stated (January 2011) that AAI had raised bill amounting to ₹ 2.66 crore on this amount.

2.3.1.3 Non-inclusion of penalty clause in OMDA for delayed payment of short fall in actual annual fee against the projected annual fee.

Article 11.1.2.3 of the OMDA is silent on penalty to be charged for delay beyond 15 days of commencement of the next quarter in making payment for shortfall, if any, in actual annual fee to be received.

Scrutiny of annual fee received from DIAL showed that there was delay of two to 45 days in remittance of amount of shortfall in actual annual fee leaving a cushion of 15 days. The AAI suffered loss of ₹ 1.21 crore due to delay in remittance of shortfall of annual fees. Due to not incorporating any provision in OMDA for penalty for delayed remittance of amount of shortfall of actual annual fee, AAI was not in a position to levy interest on DIAL.

The Management accepted (January 2011) the above observation and stated that Airport Operators were being advised for release of payments in time.

2.3.2 Operation Support

As per Article 6.1 of OMDA, AAI shall provide Operation Support (OS) to DIAL for a period of three years from 03 May 2006 through the general employees in the manner and subject to the terms provided in OMDA. The DIAL had to pay to AAI, monthly OS cost in relation to such general employees who were in the service of DIAL. As per Article 6.1.3 of OMDA, DIAL should from time to time cause the Escrow Bank to make payment of monthly OS cost to AAI in advance on or prior to the 7th day of each month by cheque drawn in favour of AAI. Accordingly DIAL had been making payment of certain fixed amount (about ₹ 7 to ₹ 8 crore) on 7th of every month to AAI towards OS cost. As AAI has been making payment of wages to its employees posted at IGI airport with DIAL, the difference of actual monthly wage bills and advance payment made by DIAL was required to be billed to DIAL immediately on completion of month and DIAL was required to release payment immediately.

2.3.2.1 Delay in realizing wage bills claims from DIAL on account of Operation Support Cost.

Test check of OS bills revealed that there was delay in realizing bills ranging from 25 to 387 days. This resulted in loss of interest of ₹ 0.79 crore as shown below:

(₹ in crore)					
Sl. No.	Claim for differential OS cost due on	Amount of claim	Amount realised on	Delay in realizing bill giving a cushion of one month. (Days)	Loss of interest at the rate of 8 per cent
1	07.5.2008	0.17	28.8.2009	82	-
2	07.6.2008	10.55	28.8.2008	52	0.12
3	07.7.2008	0.14	6.11.2008	91	-
4	07.8.2008	1.13	6.11.2008	60	0.01
5	07.9.2008	3.53	6.11.2008	30	0.02
6	07.1.2008	14.41	2.12.2008	25	0.08
7	07.11.2008	0.53	29.12.2009	387	0.04
8	07.12.2008	1.02	29.12.2009	356	0.08
9	07.01.2009	1.96	29.12.2009	325	0.14
10	07.02.2009	1.35	29.12.2009	297	0.09
11	07.03.2009	1.10	29.12.2009	266	0.06

12	07.04.2009	2.65	30.12.2009	236	0.14
13	07.5.2009	0.17	30.12.2009	206	0.01
Total					0.79

Thus AAI did not safeguard its financial interests by incorporating a provision in OMDA with regard to penalty for delay in payments of differential amount of OS cost by DIAL. Resultantly, AAI had to sustain loss of interest of ₹ 0.79 crore.

The Management stated (January 2011) that the AAI had advised all concerned to ensure timely raising of bills and realisation thereof within a reasonable time period.

2.3.2.2 Non-inclusion of provision in OMDA for levy of interest for delayed payment of Retirement Compensation by DIAL

As per Chapter VI of OMDA, AAI shall provide Operation Support (OS) to DIAL through the general employees for a period of three years commencing from 03 May 2006. As per Article 6.1.4, 60 per cent of the general employees had to be offered employment by DIAL. DIAL had to pay AAI retirement compensation in respect of employees who were not offered employment/did not accept the offer.

It was observed that a total 2221 number of general employees were in service as on 02 May 2006. As per conditions of OMDA mentioned above, DIAL had to offer employment to 1333 (60 per cent* 2221) employees. A total of 141 employees had accepted employment with DIAL during the OS period. The OS period was due to elapse on 02 May 2009, and AAI raised a claim on 15 April 2009 for ₹ 233.11 crore, which was subsequently revised to ₹ 250.88 crore on 9 March 2010 towards retirement compensation for 1192 employees (1333-141). DIAL released an amount of ₹ 80 crore in two instalments (₹ 30 crore on 16 June 2009 and ₹ 50 crore on 31 March 2010). Release of balance amount of ₹ 170.88 crore was delayed by it on the plea that there was no specific provision in OMDA as to the timing of payment of Retirement Compensation to AAI.

Thus due to non-incorporation of relevant clause in OMDA on the timing of payment of retirement compensation or for creation of an Escrow account for the purpose, AAI was not in a position to charge interest for delayed payment resulting in loss of interest of ₹ 19.73 crore (June 2010) as shown below:

(₹ in crore)						
Sl. No.	Date (From)	Date (To)	No of days	Principal	Rate of Interest	Interest Amount
1	03.05.2009	15.06.2009	44	250.88	8 per cent	2.42
2	16.06.2009	30.03.2010	288	220.88	8 per cent	13.94
3	31.03.2010	30.06.2010	90	170.88	8 per cent	3.37
Total						19.73

Also the AAI lost opportunity to leverage these funds for its operations as they resorted to short term loan of ₹ 250 crore at the rate of 5.85 per cent on 13 May 2009 for a period of 11 months.

The Management stated (January 2011) that in the absence of any clause in OMDA regarding timing of payment of retirement compensation or for creation of an Escrow Account for the purpose, action could not be taken for raising the interest bills.

2.3.3 Other issues

2.3.3.1 Payment to contractors of DIAL in contravention of the provision of OMDA.

As per Article 5.1 of OMDA, from the effective date (3 May 2006), DIAL shall be liable to perform all obligations of AAI (including payment obligations) under all contracts and agreements between AAI and any third party as existing on effective date. Further, as per Article 5.2 (b) (ii), DIAL shall also be liable for performance of all work- in- progress at the airport and shall be liable for making all payments in respect of all capital work-in-progress at the airport from 30 August 2005. The payments shall be made by DIAL to AAI within fifteen days of effective date on the basis of detailed separate accounts maintained by AAI in this regard.

Ministry of Civil Aviation vide its letter no. AV.24011/012/1998 dated 29 August 2005 had also directed that AAI can also undertake other capital work of operational and emergent nature during the period between the issue of transaction documents and effective date of OMDA subject to a cap of ₹ 50 crore. The effective date for transfer of airport was 3 May 2006.

A meeting was held on 23 May 2006 with DIAL for deciding mode of payment for ongoing capital works beyond 3 May 2006. In the meeting, AAI proposed two possibilities viz. (i) the payment against each work shall be made by AAI and the invoice shall be submitted to DIAL for reimbursement and (ii) the works executed beyond 3 May 2006 shall be measured and the bills are directly submitted to DIAL for payment to the contractors. DIAL agreed to the first option. It was also agreed that AAI would make the payment and raise the claim on DIAL within a fortnight and DIAL should make the payment to AAI within two to three days.

Audit observed that this arrangement was against the provisions of OMDA as the liability for settlement of contractor's bills had fallen on AAI even after the effective date (3 May 2006). Further, there was delay of one and a half months on the part of AAI in preferring claims on DIAL while DIAL had taken 11 to 894 days in settlement of the claims resulting in loss of interest of ₹ 0.33 crore at the rate of 8 *per cent* and undue benefit to the private operator.

2.3.3.2 Non recovery of Service Tax from DIAL

The Finance Act, 2007 introduced a service tax category of "renting of immovable property". This new taxable category was effective from 1 June 2007. On 8 October 2007, the service tax consultant (M/s. AK Batra & Associates) of AAI opined that "AAI should charge service tax from DIAL and the incidence of service tax should be borne by DIAL". AAI raised bills towards service tax on annual fee received from DIAL with effect from 1 June 2007.

DIAL disputed the applicability of service tax on renting of immovable property and hence did not pay the outstanding dues. However, AAI had been depositing the tax on these receipts on monthly basis as per the provision of the Act from June 2007 to February 2008 amounting to ₹ 31.77 crore (February 2008).

DIAL filed writ petition (W.P(C) No.2707/2008) before High Court of Delhi, against the GOI where AAI was also a respondent. The Court gave direction (28-04-08) that AAI would not deposit the installment towards service tax due in each succeeding month until the next hearing. Although, final decision in the matter was awaited from the Court, yet

the AAI withdrew the bills raised on DIAL and reduced their debtors by showing the amount in their accounts as recoverable from Service Tax Department. Reasons for withdrawing the bills were not on record.

Conclusion

It was observed that DIAL was unduly benefitted due to non-levy of interest on excess annual fee actually received as per the provision of OMDA. Besides, due to the absence of enabling provisions AAI was not in a position to levy penal interest on delayed payments by DIAL. It was also observed that there was delay in getting reimbursed the payments made by AAI to contractors from DIAL which was against the provisions of OMDA. Had AAI managed this contract more effectively, it could have earned additional revenue of 23 to 24 *per cent* of revenue received.

The matter was reported to Ministry in July 2010; reply was awaited (February 2011).

Recommendation

The provisions of OMDA need to be amended in terms of Article 20.3.1 of Chapter XX to include penalty clauses for protecting interests of AAI against delayed payments by DIAL.

2.4 Injudicious investment on development of airport at Coochbehar

Airports Authority of India made an injudicious investment of ₹ 30.92 crore on development of Coochbehar Airport without ensuring availability of adequate runway length resulting in the airport remaining non-operational for more than 3 years. The Authority had also incurred additional expenditure of ₹ 3.14 crore on maintenance.

The Parliamentary Standing Committee on Transport, Tourism and Culture suggested (October 2003) studying the feasibility of development and upgradation of Coochbehar airport. The erstwhile Indian Airlines and Air Deccan also expressed (November/December 2004) their willingness to operate ATR-42 type of aircrafts from Coochbehar subject to availability of required infrastructure. The Board of Airport Authority of India approved (January 2005) renovation and development of Coochbehar Airport at an estimated cost of ₹ 20 crore. The civil works included resurfacing of runway, extension of runway by 60 meters in the north-east direction, construction of terminal building, fire station, perimeter road, boundary wall and connected electrical works. The airport was ready for operation in August 2007 with uni-directional landing with a runway of 1129 meters strengthened and extended incurring capital expenditure of ₹ 1.93 crore. The capital expenditure on civil and electrical works including the expenditure on runway as above was ₹ 30.92 crore (March 2010). The revenue expenditure incurred on maintenance of the facilities during 2007-08 to 2009-10 was ₹ 3.14 crore.

Audit scrutiny revealed that the extension of runway and other civil and electrical works were undertaken by the Authority even while it was fully aware that the runway length would not be sufficient for operation of ATR-42 at full load. Further extension of runway in the north-east direction depended on diversion of a river (Mora Torsa) which was not considered feasible by the State Government. No airlines had commenced regular

scheduled operation from Coochbehar and Bureau of Civil Aviation Security (BCAS) permission/clearance for operation of the airport was awaited as of August 2010.

Management stated (July 2010) that capital investment at Coochbehar Airport was for the infrastructure of the country, developed in the interest of spurring aviation growth in the region. It was also stated that one private airline had proposed to operate non-scheduled 18 seater passenger aircraft from the airport.

The Management's reply was not tenable as the runway length of the airport was not sufficient for operation of ATR type of aircrafts for which the airport was originally planned and developed for increasing traffic in the region. Further, operating non-scheduled aircrafts having lesser capacity would not result in sizable aviation growth.

The Authority, therefore, made an injudicious investment of ₹ 30.92 crore on development of Coochbehar Airport, without ensuring availability of adequate runway length resulting in the airport remaining non-operational for more than 3 years.

The matter was reported to Ministry in September 2010, reply was awaited (February 2011).

2.5 *Unauthorised withdrawal from the Escrow Account held in a fiduciary capacity on behalf of the Government of India by MIAL*

The orders of the Government regarding expenditure from Passenger Service Fee (Security Component) Escrow account were violated by the airport operator- Mumbai International Airport Limited, resulting in loss to Government/Airport Authority of India by ₹ 15.22 crore.

In terms of Rule 88 of the Aircraft Rules 1937, the licensee of an airport is entitled to collect fees named as Passenger Service Fee (PSF) from the embarking passengers at such rate as the Government of India (GOI) may specify and is also liable to pay for security component to any security agency designated by the GOI for providing the security service.

Consequent to allowing private companies and joint venture companies to own and operate airports in the country, the Government of India, Ministry of Civil Aviation (MOCA) issued an Order on 9 May 2006 which was later amended by Order dated 20 June 2007.

The order, *inter-alia*, stated that:

- Passenger Service Fee (PSF) at Airports would be collected by the respective airport operator, which could be Airports Authority of India (AAI), a Joint Venture Company (JVC) or a private operator;
- An Escrow account would be opened and operated by the airport operator in fiduciary capacity. An amount of ₹ 130 of the PSF collected per passenger by such airport operator would be deposited in the Escrow account for payments to be made to Central Industrial Security Force (CISF). The Escrow account would be subject to Government Audit by the Comptroller and Auditor General of India.
- The remaining amount, if any, would be transferred to AAI by the airport operator through a process of mutual consultation for payment to CISF deployed for security purposes at other airports.

It was observed in Audit that:

- Mumbai International Airport Private Limited (MIAL), which is the operator of the Chatrapathi Shivaji Mumbai International Airport with effect from 3 May 2006, had met expenses amounting to ₹ 14.21 crore relating to consultancy and other professional charges (₹ 1.87 crore) and deployment of private security agencies (₹ 12.34 crore) from the PSF (SC) Escrow Account during the years 2007-08 and 2008-09 which was not in accordance with various orders/instructions issued by the GOI regarding operation of PSF (SC) Escrow account.
- MIAL purchased an x-ray screening machine costing ₹ 1.01 crore in 2008-09 out of PSF (SC) Escrow account for screening of export cargo. The income earned by MIAL by offering the use of cargo screening machine to airlines and their agents was not credited to PSF (SC). However, as per clarifications issued (January 2010) by MOCA, “if expenditure for screening items including X-ray machines, multi view X-ray machine on inline baggage system is included in the scope of expenditure to be met out of PSF (SC), airport operator shall not be charging any hiring fees from concerned agencies viz., airline, cargo etc., and if the airport operator is charging any hiring fees/charges for use of screening equipment from the airlines, cargo agents, etc., then the expenditure relating to the installation and use of these screening equipment shall not be included in the scope of expenditure to be met out of the PSF (SC)”.

The MIAL Management stated (September 2010) that:

- As the CISF had not been able to take care of landside/cityside security due to non availability of adequate staff, MIAL had to engage private security agencies. MIAL also contended that MOCA orders of June 2007 made it clear that all security related expenses of airport could be met out of PSF (SC) account.
- The amount of ₹ 1.87 crore paid to consultant engaged by MIAL was to provide technical consultancy services for airport security services and also to assist MIAL in finalisation of technical specification of Perimeter Intrusion Detection System and to ensure that the airport met all the safety and security requirements as per applicable guidelines and industry practices which was directly related to security expenditure.
- Cargo brought inside the airport was screened thoroughly and that the expenditure on X-ray machine was an absolutely necessary expense related to security which should be allowed to be incurred from the PSF (SC) account.

The above reply was not acceptable as:

- MOCA order of 2007 has to be read with order issued in January 2009 prescribing the ‘Standard Operating Procedure for Accounts/Audit of Passenger Service Fee (Security Component) {(PSF)(SC)} by JVC/Private Operators’ on preparation of the Annual Financial Accounts for PSF (SC) from the years 2006-07 and 2007-08. The said order made it clear that aviation security was an activity reserved for the GOI and that force deployment at airports, security requirement including requirement of capital items and specifications thereof were laid down by the Government/Bureau of Civil Aviation Security (BCAS). The order further

stated that the security component could be used only in terms of directions issued by the Government/BCAS from time to time.

- In January 2010 and April 2010, the MOCA had clarified the scope of “security related expenses” stating that permissible expenditure out of PSF (SC) should not include expenditure on any other security staff or other administrative set-up created/engaged by the airport operators. In view of GOI orders and clarifications, withdrawal of ₹ 15.22 crore from PSF (SC) Escrow Account by MIAL during the two years 2007-08 and 2008-09 for expenses in connection with employment of private security agencies and towards consultant fees and purchase of cargo screening machine was not only in violation of the Government’s orders regarding the PSF (SC) account but also a loss to the Government/AAI since any surplus in the PSF (SC) Escrow account should be ultimately transferred to AAI by the airport operator through a process of mutual consultation for related expenses at other airports. MIAL also stated that in a meeting of MOCA in April 2010 it was discussed that expenses on account of private security could not be incurred from PSF (SC) Account.

Prior approval of Ministry of Home Affairs was not obtained by MIAL for engaging private agencies at Mumbai International Airport for Civil Airport Security.

The matter was reported to Ministry in September 2010, reply was awaited (February 2011).

The matter was brought to the notice of Ministry of Home Affairs also (February 2011).

Recommendations

The Ministry of Civil Aviation should:

- ***Direct MIAL immediately to remit back into the PSF (SC) Escrow Account the amount appropriated by MIAL in violation of instructions for utilization of PSF (SC) Account.***
- ***Obtain approval of the Ministry of Home Affairs for engagement of private agencies by MIAL.***
- ***Conduct internal audit periodically to oversee the withdrawals from the Escrow Account.***

2.6 Idle investment on cargo handling equipment

AAI did not ensure taking over of cargo handling activities from Air India before procurement of Elevated Transfer Vehicle for export cargo resulting in idle investment of ₹ 9.23 crore.

The Airports Authority of India (AAI) set up an Integrated Cargo Complex (ICC) (December 2006) at Kolkata airport. The plant and machinery installed included Elevated Transfer Vehicle (ETV) in the export area of ICC to enable expeditious handling of export cargo. The order for ETV was placed in February 2007 and the same was commissioned in January 2008 at a cost of ₹ 9.23 crore. AAI incurred ₹ 0.82 crore till

January 2011 towards annual maintenance charges of ETV out of a total amount of ₹ 2.28 crore payable to the vendor for a period of seven years up to January 2015.

Air India had been providing cargo handling services to their own flights and on behalf of other airlines like Biman Bangladesh Airlines, Singapore Airlines, Thai Airways and Ethiad Airways through M/s Global Airport and Ground Services (P) Limited since April 2007 for a period of two years up to April 2009. Air India extended (July 2009) the contract up to April 2011 in continuation of an interim extension from April to July 2009.

AAI intimated (December 2009) the airlines of taking over of cargo handling from them with effect from 15 January 2010. Air India, however, declined to accept the taking over of cargo handling performed by them. The ETV was not put to use. Audit observed that AAI did not finalise the issue of taking over of cargo handling activities from Air India prior to placement of order for the ETV.

Management stated (December 2010) that a ground handling agency had been appointed who would utilise the ETV. As Air India had a subsisting contract to provide cargo handling services the reply of the Management was not acceptable.

Thus procurement of ETV done without ensuring utilization resulted in idle investment of ₹ 9.23 crore since January 2008. The objective of expeditious handling of export cargo of airlines was not accomplished.

The matter was reported to Ministry in October 2010; reply was awaited (February 2011).