

CHAPTER XIX : UNION TERRITORIES

Andaman and Nicobar Administration

Directorate of Shipping Services

19.1 Unfruitful expenditure on procurement of a vessel

Failure of Andaman and Nicobar Administration to take effective action against the firm for breach of contract, even after five years of suspension of work, resulted in unfruitful expenditure of Rs. 1.74 crore.

The Andaman and Nicobar Administration (Administration) entered into an agreement in August 1997 with M/s Damodar Engineers, Port Blair (firm) for construction of a medium size vehicle ferry vessel at a cost of Rs. 2.49 crore to be delivered within 20 months i.e. by April 1999. The firm was required to furnish an indemnity bond for all payments made prior to the delivery of the vessel. The agreement stipulated that in case of failure to deliver the vessel within six months after the time provided in the contract, the buyer shall be entitled to terminate the contract and claim refund of the amounts paid to the firm. It further provided that in case of default by the firm, the buyer can enter into contract with any other builder(s) to complete the construction.

The firm completed the work upto hull stage (4th stage) till March 1999. Thereafter no further progress was made till May 2004 for reasons not on record. The Directorate of Shipping Services (DSS) paid an amount of Rs. 1.74 crore to the firm between August 1997 and May 2000 and also incurred an expenditure of Rs. 0.89 lakh towards IRS[#] inspection fee between January 1999 and April 2001.

Only in January 2002, after more than two and half years since stoppage of the work, DSS issued a show cause notice on the firm. In January 2003, after another year, DSS requested the Administration to initiate action against the firm. But the Administration had neither terminated the contract with the firm nor taken any action as of May 2004 to complete construction of the vessel, as provided for in the agreement. Though the firm had furnished an indemnity bond in August 1997 undertaking to repay the amount received in case of failure to deliver the vessel, the Administration, in October 2004, after the receipt of the audit observation, requested the firm to refund the amount of Rs. 1.74 crore. No recovery has, however, been made till December 2004.

[#] Indian Register of Shipping

Thus, failure of the Administration to take effective action against the firm for breach of contract, even after five years of suspension of work resulted in unfruitful expenditure of Rs. 1.74 crore.

While confirming the facts and figures, the DSS stated in May 2004 that necessary action in the matter was being taken at Administration level.

The matter was referred to the Ministry in July 2004; their reply was awaited as of December 2004.

Directorate of Industries

19.2 Unfruitful expenditure on construction of sheds

Injudicious decision of the Directorate to construct seventeen sheds at Campbell Bay, a far-flung island, without a detailed assessment of the demand resulted in non-utilisation of the sheds even after three-four years of taking over and rendered the expenditure of Rs. 1.27 crore on their construction unfruitful.

The Expert Group of Planning Commission suggested in November 1993 to provide for at least 20 built-up sheds in South Andaman and another 20 in the Nicobar and Katchal Islands for organised small units during the next three to five years. Based on the recommendations, the Directorate of Industries (Directorate) included the scheme for setting up of Industrial Estates in the Eighth Five Year Plan. The scheme envisaged provision of infrastructural assistance by construction of sheds and leasing them to prospective entrepreneurs for self-employment. Campbell Bay had previously been identified for construction of five sheds. The Directorate decided to construct 12 more sheds at Campbell Bay.

The first two phases involving construction of ten sheds were completed by April 1998 at a total cost of Rs. 58.92 lakh. The ten completed sheds were taken over by the Directorate in August 2000. Attempts in October 2000 to lease out the sheds at nominal rent of Rs. 310 per month per shed failed due to non-completion of electrification, pipe connection and approach road.

The third phase involving construction of the remaining seven sheds, which commenced in September 1998, was completed in July 2001 at a cost of Rs. 67.78 lakh and was taken over by the Directorate in September 2001. The Directorate, in February 2002, attempted to lease out all the seventeen sheds to prospective entrepreneurs at a revised rent of Rs. 1100 per month per shed. Four out of eighteen applicants were selected, but none of them occupied the sheds considering the rent to be on the higher side. In February 2002 the Administration also explored the possibility of utilisation of the sheds by other Government departments. But none of the departments evinced interest in

taking over the sheds. The sheds were lying vacant as of August 2004 without any taker.

Audit scrutiny revealed the following:

- The Directorate decided the location of the sheds without a detailed assessment of demand. The sheds were constructed at a non-commercial locality at Cambell Bay, a far off island, and there were constrains in transportation of raw materials and finished products to and from Port Blair.
- Though the Expert Group had recommended setting up a coordinating cell under the Chief Administrator of the Island to review the promotion of industries every month and a sub-committee under the Directorate to review the progress of promotional and other programmes, no such committee was formed. No mid term review was conducted after completion of the first phase of construction. A mid-term review of the results of the scheme would have facilitated appropriate decisions on the advisability of going ahead with the implementation of the second and third phases involving the construction of twelve more sheds of Campbell Bay.

Thus, injudicious decision of the Directorate to construct seventeen sheds at Cambell Bay, a far-flung island, without a detailed assessment of the demand resulted in non-utilisation of the sheds even after three-four years of taking over and rendered the expenditure of Rs. 1.27 crore on their construction unfruitful.

The Ministry in November 2004 attributed the reason for non-utilisation of the sheds to the order of the Supreme Court banning / curtailing the use of forest produces and environmental resources on which the industrial units were mostly based and stated that these sheds would be considered by the Administration/Directorate for alternative use if and when the prospects pick up for other economic activities. The reply is not tenable as attempt to lease out ten sheds in October 2000 failed even before issue of the Supreme Court order of November 2001 banning/curtailing the use of forest produces.

Directorate of Shipping Services

19.3 Avoidable expenditure on manning of vessels

Extension of the contract during the period of lay off of the vessels resulted in avoidable expenditure of Rs. 66.89 lakh and unintended benefit to the manning agent.

The Director of Shipping Services (DSS) in December 2001 entered into a contract with M/s ABS Marine Services Pvt. Ltd. (agent) for manning its

vessels. The agent was required to provide six officers on board each vessel at a fee of Rs. 3.85 lakh per month per ship. The payment was to be made only for the actual time the vessel was completely manned by bona fide persons, on being certified by the TMC¹. The term of the contract was for one year starting from the date of commencement of contract for each ship and extendable on mutual consent. The contract could be terminated by DSS upon serving two months' notice without prejudice to the agent.

DSS engaged the agent for manning MV Baratang from December 2001 and MV Onge from July 2002. The vessels were laid off for APS² - MV Baratang from December 2002 to September 2003 and MV Onge from June 2003 to March 2004.

Audit scrutiny revealed that at the time of lay off, the contract of MV Baratang had already expired in December 2002 while the contract of MV Onge was about to expire in July 2003. Notwithstanding this, DSS extended the contract of the vessels for a further period of one year. DSS paid an amount of Rs. 66.89 lakh to the agent for the period of lay off. The payment for the lay off period was released without the certificate of the TMC, in violation of specific provisions of the contract as the contract with the Shipping Corporation of India for technical management was entered into only in April 2004.

The Administration stated in August 2004 that the manning contract of the vessels was renewed so as to enable supervision of repair works during APS. It was however seen that in case of a similar contract executed with another agent in April 1999 for manning of MV Dweep Shakti, DSS, instead of renewing the manning contract, had posted its own personnel on board the vessel during the period of lay off to avoid unproductive expenditure. This was not done in case of MV Baratang and MV Onge. Thus, extension of the contract during the period of lay off of the vessels resulted in avoidable expenditure of Rs. 66.89 lakh and unintended benefit to the manning agent.

The matter was referred to the Ministry in July 2004; their reply was awaited as of December 2004.

¹ Technical Management Company

² Annual Physical Survey