CHAPTER VIII : MINISTRY OF SHIPPING, ROAD TRANSPORT AND HIGHWAYS

Cochin Port Trust

8.1 Loss of revenue due to levy of lower lease rent

Unauthorised levy of lower rate of lease rent for the area within the Inland Container Depot Yard for stacking empty containers resulted in loss of Rs. 88.60 lakh.

On commissioning of the Inland Container Depot (ICD) Yard in April 1995, Cochin Port Trust (CoPT) decided to lease out the area within the ICD Yard for stacking empty containers at lease rent of Rs. 200, Rs. 150 and Rs. 140 per 10 square metre per month or part thereof for hard surface area, flying funnel area and undeveloped area respectively. In the subsequent revision of the Scale of Rates (SOR) notified in the State Gazette in January 1997, the lease rent of hard surface area was fixed at Rs. 200 per 10 square metres per month or part thereof with five *per cent* annual increase with effect from 1 July 1996. No separate rates were provided in SOR for flying funnel area and undeveloped area. It was found in audit that in respect of four lessees[♦] CoPT did not effect the revision of rates but continued to levy the earlier lower rate. However, while renewing the temporary lease of two of these lessees in November 2003, CoPT started levying the revised rate of Rs. 200 per 10 square metres. But in respect of other two lessees it still continued with the lower rate and the revised rate was levied only from July 2005, after the matter was raised by Audit. In response to audit observation (June 2005) CoPT stated (July 2005) that it levied lower rates to avoid under-utilisation of space and that now it was levying the rate notified in SOR. As the rate levied from the lessees was not uniform during the period and CoPT was bound to levy the notified rate as is being done now, its contention is not tenable.

Failure to levy lease rent specified in SOR resulted in loss of revenue of Rs. 88.60 lakh for the period from July 1996 to June 2005.

The matter was referred to the Ministry in August 2006; their reply was awaited (October 2006).

[♦] (i) M/s Bay Container Terminal (P) Limited, (ii) M/s APL Agencies India (P) Limited, (iii) M/s Binny Limited and (iv) M/s Chakiat Agencies (P) Limited

Kolkata Port Trust

8.2 Unfruitful expenditure

Failure of Kolkata Port Trust to ensure availability of barges of appropriate class and size rendered the expenditure of Rs. 5.73 crore on construction of a Virtual Jetty unfruitful.

Sagar Island is situated at a distance of about 145 Km. south of Kolkata, where there is an anchorage, Sagar Anchorage (Sagar), of the Kolkata Port Trust (Port Trust) for cargo operations during fair weather season from October to March. In order to undertake such cargo operations round the year, the Port Trust in November 2000 appointed Indian Institute of Port Management (IIPM) at a cost of Rs. five lakh to carry out a techno economic feasibility study for installation of a four buoy mooring system at Sagar, termed as Virtual Jetty. The feasibility study report was submitted by IIPM in June 2001. The scheme was found financially viable considering traffic projection of 1.15 million tonne of additional cargo resulting in additional income of Rs. 14.29 crore during the first year of operation. In the report, IIPM stressed on the need for ensuring availability of adequate fleet of barges, particularly Merchant Shipping class barges (MS class barges) during rough weather for the success of the scheme.

The Board of Trustees of the Port Trust in November 2001 approved construction of the Virtual Jetty at an estimated cost of Rs. 8.30 crore to be met from the Port Trust's internal sources. In addition, an estimated quantity of 2.2 million cubic metres dredging was also envisaged by the Port Trust to increase the draft in the channel leading to Virtual Jetty at Sagar from existing 7 metres to 7.8 metres.

Between December 2002 and February 2004, works of construction of buoys and other accessories and their installation were completed at a cost of Rs. 5.73 crore. The virtual jetty at Sagar Anchorage was commissioned in February 2004. During February and April 2005, the Port Trust also incurred an expenditure of Rs. 5.96 crore for undertaking dredging of leading channel to Virtual Jetty at Sagar.

Audit scrutiny brought out the following:

- The Virtual Jetty was fully ready for cargo operation round the year since February 2004. The system has handled only one vessel that too in fair weather season of December 2004 and not a single tonne of cargo in rough weather season at the Virtual Jetty as of November 2006.

- The Port Trust was aware that availability of barges of appropriate class and size was crucial for the success of the scheme. In April 2002, private barge operators had categorically stated that plying of M.S. class barges would be uneconomical. They instead preferred plying of Inland Barges with suitable dispensation from Mercantile Marine Department. This was however not permissible as per Merchant Shipping Act 1958, as for such operations, higher class of construction and manning for Inland barges were required. The barge operators also sought assurance of adequate cargo support and rationalisation of tariff structure. The Port Trust failed to address these issues resulting in non-availability of barges at Virtual Jetty even as of November 2006.

- Audit further observed that the targeted increase in draft in the shipping channel leading to Virtual Jetty could not be achieved by the Port Trust, which was necessary to accommodate maximum panamax sized vessels. Navigable draft at the leading channel remained at 6.9 metres even after dredging 2.3 million cubic metres which was envisaged to increase the draft from existing 7 metres to 7.8 metres.

Thus the investment of Rs. 5.73 crore on construction of virtual jetty failed to bear fruit as the Port Trust failed to ensure availability of barges of appropriate class and size. Non-achievement of required draft also limited the capability of the Virtual Jetty.

While accepting the audit point that non-availability of suitable barges had affected utilisation of the virtual jetty, the Port Trust stated (October 2006) that it had made all out efforts to persuade the private barge operators in mobilising/constructing adequate barges for use at virtual jetty. The Port Trust also stated that the dredging work done was maintenance dredging and had no relevance to the development of Virtual Jetty as it was a regular phenomenon and was a part of normal maintenance dredging of the Port Trust. The reply is not tenable as even after two years and nine months of its commissioning, the investment on Virtual Jetty has remained unfruitful.

The matter was referred to the Ministry in August 2006; their reply was awaited as of December 2006.

8.3 Wasteful expenditure

The Port Trust without assessing the efficacy of consultant's recommendations incurred wasteful expenditure of Rs. 3.07 crore on shore-based pilot station which had to be abandoned.

In order to do away with the long standing practice of engaging pilot vessel as floating pilot stations, Kolkata Port Trust (Port Trust) in September 1997, appointed the Metallurgical and Engineering Consultants (India) Ltd. (MECON) to carry out the feasibility study including selection of site for the shore based pilot station at Sagar Island. MECON submitted its report in March 1998. MECON *inter alia* recommended that the work of dredging/excavation of approach channel and basin should be undertaken alongwith measures to protect the approach channel and basin against wave actions and tidal fluctuations by bund/embankment. To guard against heavy siltation, MECON also recommended continuous dredging in the excavated portion of the channel. Based on MECON's report the Port Trust decided (June 1998) to establish the shore based Pilot Station.

The Port Trust took up the work of dredging/excavation of approach channel and basin and construction of embankment. The Port Trust awarded (June 1999) the work of dredging/excavation of approach channel and basin and construction of embankment to a Private Company (Company) at a cost of Rs. 2.87 crore. The work was to be completed by December 2000. As the contractor failed to complete the work even by the extended period (June 2001), the Port Trust terminated the contract in August 2001. Total amount paid to the Company was Rs. 3.07 crore including Rs. 21.42 lakh paid to the same contractor for emergency works.

Audit scrutiny brought out the following:

- By March 2000 nearly 75 *per cent* of the work had been completed. But from April 2000 tidal waves started hitting the embankments. By June 2000 a portion of the channel was substantially filled up with sedimentation caused by the action of tidal waves. In July 2000, an additional amount of Rs. 25 lakh was sanctioned for works of emergency nature against damages caused to the work and the same was immediately taken up. But by July 2000, severe siltation had taken place and a portion of piling on the northern face of the channel was totally destroyed by the wave action. The contractor was given extension of six months to complete the work. In July 2001, the Company suspended the work on the plea of non-payment of bills. In view of the failure of the Company to complete the job, the Port Trust, in August 2001, decided to close the contract. The Port Trust did not take any further action to protect and maintain the work already executed rendering the work of the approach channel and basin with embankment created at a total cost of Rs. 3.07 crore wasteful.

- The Port Trust stated (September 2005) that it was not clear to the Trust how the dumped materials forming the dyke surrounding the basin and channel could be protected against natural forces. The Port Trust also admitted that the project of shore based pilot station could not fulfil the objectives/expectations to the desired extent as it was subject to the whims/vagaries of nature. This goes to show that the recommendations of MECON were attempted to be implemented without adequately assessing the efficacy of the measures recommended by MECON.

Thus, by implementing MECON's recommendations without adequately assessing the efficacy of the measures recommended by MECON, the Port Trust incurred wasteful expenditure of Rs. 3.07 crore on unviable works of shore based pilot station.

The matter was referred to the Ministry in August 2005; their reply was awaited as of December 2006.

8.4 Excess expenditure

Kolkata Port Trust applied a wrong rate of interest against that fixed by its Board on the Non-contributory Provident Fund balance resulting in excess payment of interest of Rs. 50 lakh.

In March 2003, the Port Trust noted that the rate of return on the investment of the Surplus Fund of the Non-contributory Provident Fund (NCPF) in various securities ranged between 6.5 percent to 8.5 *per cent* depending on their rating (AAA to A), which was much lower than the 9.5 *per cent* rate of interest allowed in 2002-03 to the members of NCPF on their fund balances. Consequently, the interest earned during 2002-03 was less than the interest paid to the members, causing a loss to the NCPF. The accumulated deficit in NCPF account stood at Rs. 15.12 crore as on 31 December 2002.

In March 2003, in order to avoid further loss and for better management of NCPF, the Port Trust reduced the rate of interest payable to the members of NCPF from the existing 9.5 *per cent* to 8.5 *per cent*, or the rate of interest allowed in the General Provident Fund (GPF) by the Government of India whichever was lower, with effect from 1 April 2003.

Though, the prevailing rate of interest allowed to GPF members during that period was 8 per cent, the interest at the rate of 8.5 percent was allowed to the members of the NCPF from 1 April 2003 to 29 March 2004. When this was detected by the Port Trust in March 2004, the Port Trust gave *ex-post-facto* approval to interest at the rate of 8.5 *per cent per annum* on NCPF from 1 April 2003, revoking its earlier decision of March 2003. This resulted in excess expenditure of Rs. 50 lakh towards payment of interest to the NCPF members.

The Port Trust stating that the employees working in Provident Fund section were not conversant in obtaining the current rate of GPF from right sources, admitted (November 2006) inadvertent mistake in the payment of interest at the rate of 8.5 *per cent per annum*, instead of 8 *per cent per annum*. It was further stated there was no irregularity in allowing interest at the rate of 8.5 *per cent per annum* to the members of NCPF during the period 2003-04, as the same was given on the basis of a decision taken by the Board of Trustees.

The contention is not tenable since Board's decision to allow interest rate of 8.5 *per cent* to the members of NCPF was only to regularize the wrong already committed. It is not credible that obtaining of the prevailing rate of GPF interest rate from right source was such a difficult task.

The matter was referred to the Ministry in August 2006; their reply was awaited as of December 2006.

Marine Engineering and Research Institute, Kolkata

8.5 Wasteful expenditure

Injudicious decision of replacing the hard disc of a costly equipment by a local computer firm instead of approaching the manufacturer for the same, coupled with indecision and lack of follow up had resulted in a wasteful expenditure of Rs. 44.65 lakh. Besides, the practical training of the students for which the equipment was purchased could not be imparted for 10 years.

The Marine Engineering and Research Institute, Kolkata (MERI) required an Inert Gas Simulator for imparting practical training to students on fire fighting on ships. MERI procured the Simulator from a Mumbai based associate of a firm based at Pune, the sole Indian agent of the foreign manufacturer 'Sistemi

Technologici Educazionali Multimediali, Italy' (STEM) and installed in August 1995 at a cost of Rs. 44.65 lakh, with warranty valid till August 1996.

MERI did not initiate any step to cover the costly equipment under any annual maintenance contract. The equipment went out of order due to damage to the hard disc of the computer in September 1996 just after the expiry of the warranty period.

After the equipment went out of order, MERI, instead of approaching the authorised Indian agent or the supplier firm, replaced the original hard disc of the equipment by a local computer firm in December 1996. However, the application software could not be installed by MERI on the new hard disc, even STEM and their Indian agent could not install the same and the simulator remained idle. In September 1998, STEM agreed to send a hard disc with the required program loaded in it to MERI and despatched the same on 02 October 1998. The parcel containing the disc arrived at the Foreign Parcel Department of the Post Office at Kolkata on 20 October 1998 and was lying there for more than a year awaiting customs clearance for lack of pursuance by MERI. In December 1999, STEM had informed that the system was not Y2K complaint. STEM further stated that they had developed new a software that would comply with Y2K requirements and they would extend 100 *per cent* on-site technical support along with a new warranty, in case MERI requisitioned the new software. MERI did not requisition the same.

In January 2000 when MERI got the program loaded hard disk cleared, sent to it in October 1998 from customs, the same failed to function as being non Y2K complaint. MERI did not take any further action to resolve the matter and make the simulator operational. On being pointed out by Audit (January 2005), it took up the matter (February 2005) with the manufacturer. In response, the Indian agent (April 2005) informed MERI that the simulator had become obsolete and suggested its replacement with a new model costing Rs. 30.66 lakh. MERI did not take any further action on this as of November 2006. During this period of more than a decade, the benefit of practical training through simulator was denied to the students.

The indifferent handling of the Inert Gas Simulator by MERI and failure to cover the same under annual maintenance contract followed by indecision regarding procurement of Y2K complaint software and inaction to arrange for any alternative 'Simulator' resulted in denying the practical training to students for the last 10 years. Besides, expenditure of Rs. 44.65 lakh also was rendered wasteful.

The matter was referred to the Ministry in August 2006; their reply was awaited as of November 2006.

Mumbai Port Trust

8.6 Infructuous expenditure on maintenance of a vessel

Unnecessary expenditure of Rs. 2.95 crore on maintenance of a surplus and non-functional fire float.

The Mumbai Port Trust (Port) procured and commissioned fire float Jyotsna in February 1994 at a cost of Rs. 4.11 crore. The Port procured two highly maneuverable multipurpose 45 Tonnes Bollard Pull Tugs with built-in fire fighting capacity which were commissioned in October/November 2000. Audit scrutiny brought out the following.

- The fire float Jyotsna was lying idle from February 1994 till July 1996 for want of crew. Even after posting of crew members in August 1996, the vessel could not be made operational due to break down of air starters installed on pump engines and jamming of port side engines. From July 1999 the vessel was laid up for major repairs and was recommissioned in December 2002 and declared surplus in April 2003. Thus fire float Jyotsna was hardly available for serving the intended purpose.

- With the commissioning of multipurpose 45 Tonnes Bollard Pull Tugs with built-in fire fighting capacity in October/November 2000, the need for operating and maintaining a dedicated fire float had ceased. However, the Port did not consider disposing of the fire float Jyostna even though it had more or less remained unavailable to meet fire related contingency and was laid up for major repairs for a long period.

- The port identified the fire float Jyotsna as surplus in April 2003 after a lapse of three years from the date of commissioning of two multipurpose 45 Tonnes Bollard Pull Tugs. But it was not disposed of by the Port as of March 2006. Meanwhile, the Port incurred an expenditure of Rs. 5.44 core from December 2000 to March 2006 towards payment of salary of the crew members and repairs and maintenance of the fire float Jyotsna. This expenditure was avoidable as with the commissioning of multipurpose 45 Tonnes Bollard Pull Tugs with built-in fire fighting capacity there was hardly any need for maintaining a dedicated fire-float which had remained largely non-functional.

The Port stated (October 2005) that after the induction of the two new tugs, the utility of fire float jyotsna has been considerably reduced and it was being used as a standby and certain amount of expenditure was required to be incurred to keep it in operational condition. It was further stated that the fire float was an essential equipment.

The reply is not tenable as utility of efforts to maintain a largely non-functional fire float especially after commissioning (October/November 2000) of the two multipurpose tugs with high capacity fire pumps, was doubtful and the expenditure of Rs. 2.95 crore incurred on it from May 2003 to March 2006 was therefore avoidable.

The matter was referred to the Ministry in August 2006, their reply was awaited as of December 2006.

8.7 Excess expenditure

Mumbai Port Trust delayed awarding the work of reconstruction of a damaged section of quay wall required for providing berthing facilities by six years resulting in curtailing of available berthing facilities and cost escalation of Rs. 1.30 crore.

A quay wall at Hay Bunder is used by the Mumbai Port Trust to provide berthing facilities to coastal traffic. In August 1997, part of the quay wall measuring 200 metres out of a total length of 730 metres was damaged due to heavy rains. The port awarded the work of reconstruction of the damaged quay wall in March 2001 with scheduled date of completion as 15 September 2002. The work was completed in November 2002. Meanwhile in August 2000, adjoining sections of the damaged quay wall for a length of 250 metres had also collapsed/tilted.

Audit scrutiny brought out the following.

- The process of scrutiny of tenders for reconstruction of damaged 200 meter section was under way when section of quay wall of 250 meters had collapsed in August 2000 and work could have been awarded for the entire damaged stretch. But the Port did not find it feasible to float a composite tender for the entire stretch of damaged wall.

- The Port decided to take up work of reconstruction of 250 meters of wall separately on priority basis. Though the estimate for reconstruction of this section for Rs. 3.32 crore was ready in August 2000 itself, the tender was invited only in July 2003 i.e. after a lapse of almost three years. The tender had to be discharged due to poor response. The second tender was invited in July 2004 but met with the same fate.

- On the third occasion the tender was floated in May 2005 at an estimated cost of Rs. 3.48 crore but due to non inclusion of cost of cofferdam it was decided to discharge the tender (February 2006). The construction of cofferdam was included as an additional item even in case of work relating to 200 meter section implying that the Port failed to become wiser and committed same omission while floating the tender in May 2005.

- On the fourth occasion the cost put to tender was Rs. 4.42 crore (April 2006) and the work was awarded to the lowest bidder for Rs. 4.62 crore (September 2006).

Thus the Port took six long years to award the work of reconstruction of damaged 250 metre section of quay wall resulting in cost escalation of Rs. 1.30 crore besides curtailing the berthing facilities available with Mumbai Port.

In reply, the Port stated (August 2006) that execution of the whole work as a composite scheme would have further eroded the shore line and some reasonable time was required to complete the tender formalities after sanction of the estimate. It was further stated that the excess expenditure over the tender provisions was on account of extra items required because of the site conditions.

The reply is not tenable because there was nothing on record to show that composite scheme would erode the shore line and six years delay in only award of work by an organization which operates in a highly dynamic environment is unusual. It is ironical that a work which was decided (August 2000) to be taken up on priority basis was awarded after a lapse of six long years.

The matter was referred to the Ministry in August 2006; their reply was awaited as of November 2006.