CHAPTER IV: MINISTRY OF CIVIL AVIATION

Air India Limited

4.1.1 Loss of revenue due to delay in taking over of perishable cargo handling operations

Air India Limited lost revenue of Rs.7.35 crore in a year due to delay in taking over handling of perishable cargo for non-customer foreign airlines at Mumbai Airport.

The GOI, Ministry of Civil Aviation appointed (July 2003) Air India Limited (Company) as the sole handling agency of the Centre for Perishable Cargo (Centre) and directed the Company to take over the facility for handling the operations set up by Agriculture and Processed Food Product Export Development Authority. The entire maintenance cost of the Centre was to be borne by the Company. A task force of the Company assessed (August 2003) the manpower requirement to run the Centre and obtained approval of the Managing Director for augmentation of manpower. The Company, in the first phase started the activity at the Centre (September 2003) by handling its own flights and a few of its customer airlines with which it already had handling contracts. The Company, however, started handling the perishable cargo of other airlines from November 2004 in the second phase.

Audit observed (May 2005) that the Company did not take over handling of perishable cargo of other airlines in September 2003 itself. No separate security staff had been mobilised for perishable cargo handling (PCH) operations till July 2006. The existing staff was being utilised for the Company's entire operations like ground handling, passenger/baggage handling and cargo handling (including perishable cargo handling operations). Five X-ray machines were handed over by the Airports Authority of India (AAI) to the Company in September 2003 of which two X-ray machines were fit for PCH operations. No additional X-ray machine was purchased for handling perishable cargo of non-customer airlines. Both, manpower and machines were, thus, available in September 2003 for managing handling of the perishable cargo of non-customer airlines. However, the Company started handling perishable cargo of non-customer airlines only in November 2004. The delay of 12 months *i.e.* from November 2003 to October 2004 (giving allowance of two months for arrangement of security staff and X-ray machines) resulted in loss of revenue of Rs.7.35 crore♣.

The Management stated (January 2006) that a draft Memorandum of Understanding (MOU) was sent to all the carriers in August 2003 pursuant to the directives of the Government to the Company. While some airlines suggested changes to the draft MOU, others sought approval of their respective headquarters and also insisted on conversion of MOU into International Air Transport Association Standard Ground Handling Agreement (SGHA). This caused delay in taking over of the perishable cargo handling

♣ ***Calculated on the basis of average perishable cargo lifted per month by non-customer foreign airlines during November 2004 to October 2005***

operations for other airlines. Failure of the security department of the Company to mobilise the required number of certified security personnel for carrying out the X-ray screening and non-availability of suitable X-ray machines for such screening were also cited as reasons for the delay.

Reply of the Management was not tenable as the Company finally took over the perishable cargo handling operations for various non-customer foreign airlines in November 2004 with the same status of infrastructure, manpower and signing of agreement as in September 2003. Thus, the loss of revenue of Rs.7.35 crore was avoidable.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Airports Authority of India

4.2.1 Loss of revenue due to non-implementation of Court's directive

Airports Authority of India did not levy royalty as per Court's directive on gross ground handling revenue earned by the operating agencies at international airports and incurred a loss of Rs.18.48 crore.

The Airports Authority of India (Authority) collected a royalty♣ from agencies providing ground handling services at international and domestic airports. While the ground handling rules permitted only scheduled agencies *viz.* Airports Authority of India, two national carriers Air India Limited and Indian Airlines Limited and any other handling agency licensed by the Authority to carry out ground handling services at an airport, major airlines outsourced their ground handling services to non-scheduled agencies at almost all the airports including deployment of contract manpower in place of their whole time bonafide employees. As banning them would have jeopardized the operations of the airlines, the Authority decided (July 1997) to permit the airlines to continue with these non-scheduled agencies against levy of royalty at 11 *per cent*♦ of the gross turnover (GTO) of such agencies with effect from 1 April 1991.

Some of the non-scheduled ground handling agencies filed writ petitions in 1997, 1998 and 1999 in Delhi High Court challenging the Authority's decision to levy royalty at the rate of 11 *per cent* with retrospective effect and demanded regularisation of their ground handling operations. The Court in its interim order directed the Authority (between September 1997 to March 2001) to maintain status quo until final disposal of the case.

Meanwhile, the Authority invited (February 2001) global tenders for placement of new ground handling services contracts and identified (May 2001) the successful agencies after evaluation of bids. However, the work could not be awarded as the security clearance from the Ministry of Home Affairs was not forthcoming. Besides, the issue of

♣ ***Collected as a percentage of the turnover from ground handling services of the various agencies providing this service. The percentage to be collected changes from time to time.***

♦ ***The rate at which the scheduled ground handling agencies were paying royalty at that point of time***

forming a subsidiary company of the Authority for undertaking ground handling services had also come up and delayed finalisation of the contract.

Subsequently the Court finally ordered (September 2001) payment of royalty at the rate of 23 *per cent* (the rate quoted by a successful bidder♥ in the tender) of GTO earned for the business carried on at Delhi airport from 1 October 2001. The order was also made applicable to all those agencies that were doing the work of ground handling at Delhi airport even though they were not petitioners before the Court.

Audit observed (January 2005) that the Authority continued to charge royalty at the earlier rate of 11 *per cent* from the agencies operating at IGI Airport against the Court's directive to levy 23 *per cent*. Further, cheques/demand drafts received from one♣ of the existing agencies at the rate of 23 *per cent* were not encashed by the Authority.

The Management stated (August 2006) that the award letters issued did not fructify due to security reasons and were subsequently cancelled. The decision of the Court in respect of non scheduled agencies had relevance if the successful tenderers had been awarded contracts.

The reply of the Management was not tenable as the Court's orders were not subject to any condition relating to the award of tenders by the Authority. Further, even after a lapse of five years from the date of passing of the Court orders, the Authority had neither implemented the orders nor informed the Court about it. Thus, non- implementation of the Court's directive by the Authority resulted in a loss of Rs.18.48 crore for the period from April 2002 to March 2006.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.2 Loss due to non-collection of service tax on Passenger Service Fee

The Authority failed to promptly implement the levy and collection of service tax on Passenger Service Fee from the date it became due as per provisions of the Finance Act 2004, resulting in loss of Rs.6.36 crore.

The Finance Act, 2004, introduced service tax on 'Airport Services' including Passenger Service Fee (PSF) with effect from 10 September 2004. PSF was to be collected by the airlines at the time of issue of tickets and passed on to the Authority. After the enactment of the Act, the Authority instead of asking the airlines to collect and pass on the proceeds of service Tax collected, sought clarification from the Central Board of Excise and Customs (CBEC) and advised (13 September 2004) its regions to incorporate the following words while raising the invoices/bills on the airlines. "Service tax at 10.2 *per cent* (including education cess) introduced with effect from 10 September 2004 not charged in invoice pending clarification from CBEC. Service tax shall be payable by you

♥ *The rate quoted by the bidder- M/s. Combatta Aviation (P) Limited who was identified as successful based on February 2001 tender*

♣ *M/s. Combatta Aviation (P) Limited*

on this invoice, if, CBEC confirms these services as taxable services for which separate bills will be raised in due course".

Subsequently, the Authority decided (1 November 2004) to levy service tax on PSF and instructions were issued to all concerned. Accordingly, the airlines started collecting service tax on PSF from 20 December 2004. However, the major airlines, *viz.*, Air India Limited and Indian Airlines Limited did not pay the service tax for the intervening period from 10 September 2004 to 19 December 2004 on the ground that they had not collected the tax from the passengers for that period. The Authority paid Rs.6.36 crore♥ as service tax on PSF collected by these airlines for the period from 10 September 2004 to 19 December 2004 as it was the primary responsibility of the Authority to remit service tax to the GOI from the date of its introduction.

The Management stated (August 2006) that charging of service tax on PSF from 20 December 2004 instead of 10 September 2004 by the airlines was its unilateral decision. To avoid any future complications, the Authority had deposited the amount of service tax on PSF to be collected later on from both the airlines. The issue of non payment of service tax had been taken up at the highest level and it would be resolved shortly.

The reply of the Management was not tenable as the airlines did not collect and remit the service tax on PSF for the period from 10 September 2004 to 19 December 2004 due to lack of clear directive from the Authority to collect the service tax on PSF as soon as it became due.

Thus, due to lack of prompt decision to implement the levy of service tax on PSF from the date it became due as per provisions of the Finance Act 2004, the Authority incurred a loss of Rs.6.36 crore.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.3 Loss of revenue due to incorrect grant of rebate on landing charges

The Airports Authority of India allowed rebate of Rs.5.45 crore to airlines on payment of landing charges, though the latter did not fulfil the conditions for such rebate.

The Airports Authority of India (Authority) allowed (February 2004) a rebate of 15 *per cent* on landing charges for domestic flights operated by scheduled operators subject to the condition that the operators clear the airport charges♣ within a credit period of 15 days. In the international airports at Delhi, Mumbai, Kolkata, Chennai and Thiruvananthapuram, the landing and parking charges component of the airport charges was to be collected by the International Airports Division (IAD) and the route navigation facilities charges (RNFC) and terminal navigational landing charges component by the National Airports Division (NAD).

♥ ***Rs.1.68 crore for Air India Limited and Rs.4.68 crore for Indian Airlines Limited***

♣ ***Airport charges include charges for landing, parking, route navigation facilities and terminal navigational landing charges etc.***

Audit observed (March 2006) that the Authority allowed a rebate of Rs.5.45 crore (including Rs.4.98 crore to Indian Airlines Limited (IAL)) during the year 2004-05 based on payment of landing charges within the credit period. However, the corresponding RNFC charges had not been paid by the airlines within the same period. As such the airlines were not paying the entire airport charges within the credit period of 15 days which was a pre condition for allowing the rebate. It was, thus, observed that in the absence of an internal control mechanism to monitor raising and realisation of bills pertaining to the two divisions, rebate was granted incorrectly.

The Management stated (August 2006) in respect of IAL that it did not allow any discount but the airline was arbitrarily making deduction of 15 *per cent* towards the rebate. The reply of the Management was not acceptable as the amount unilaterally deducted by the airline was regularised by the Authority by accounting for it as a discount in its annual accounts. In fact it was only after the matter was pointed out in Audit that the Authority took up (June 2006) this issue with IAL.

Thus, the Authority suffered a revenue loss of Rs.5.45 crore by allowing incorrect rebate based on payment of part of the airport charges, *viz.* landing and parking charges only and not the full airport charges including route navigation and facilities charges within the credit period of 15 days.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.4 Absence of a system of raising bill for collection of Passenger Service Fee from Indian Airlines Limited

The Authority did not have a system of raising bill for collection of Passenger Service Fee from Indian Airlines Limited. This led to blocking of its funds even after collection of the same from the passengers and resulted in loss of interest of Rs.3.29 crore.

Airports Authority of India (Authority) is authorised to levy Passenger Service Fee (PSF) at airports on all embarking passengers of different airlines. As per the arrangement in place, the airlines collect PSF from the passengers and remit it to the Authority. Till March 2004, the Authority was raising bills for PSF on the private airlines and other non-scheduled operators based on the passenger manifest obtained from them at the regional level. In respect of Indian Airlines Limited (IAL) and Air India Limited (AIL), bills were not raised by the Authority and PSF was paid to the Authority by these airlines centrally at the Authority's headquarters in New Delhi. Based on Ministry's orders (March 2004), the Authority revised (April 2004) the procedure for billing of PSF according to which bills were to be raised at the regional level on manifest basis against all the airlines including AIL and IAL and the payments were to be received in the regions.

Audit observed (November 2004) that despite the specific instructions, the Authority did not raise bills for PSF on IAL citing non furnishing of passenger data by IAL as the reason. Instead, it allowed IAL to make consolidated *ad hoc* payments based on their own data every month at its headquarters for all stations put together. The settlement was made after considerable delay ranging even upto 46 months after receipt of the final

statements from IAL. This resulted in blocking of the Authority's funds with IAL during the period 2000-01 to 2003-04. During 2004-05, however, IAL made *ad hoc* payments in excess of the due amount. Consequently the Authority suffered net interest loss of Rs.3.29 crore[♣] for the period 2000-01 to 2004-05. Similar *ad hoc* payments were received for 2005-06 also but the final statement was still awaited (October 2006). Moreover, the Authority accepted the amount paid by IAL without any further check or reconciliation due to the absence of manifest details.

The Management stated (March 2006) that had the Authority raised the bills for PSF on IAL, more time would have been taken to receive the dues. As IAL was regularly making *ad hoc* payments before the 15th of the subsequent month, there was no loss to the Authority.

The reply of the Management was not acceptable in view of the fact that while the Authority was billing private airlines on the basis of passenger manifests, it did not do so for IAL, thereby suffering loss of interest.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

4.2.5 Loss of revenue due to delay in implementation of revised vehicle parking charges

Airports Authority of India did not enhance the parking charges from the date of declaration of the existing domestic airports as international airports by the Ministry. The consequent delay in revision of the licence fee receivable from the vehicle parking contractors resulted in loss of revenue of Rs.1.36 crore.

The Ministry of Civil Aviation declared (May 2000) the existing domestic airports at Bangalore, Goa, Ahmedabad and Amritsar as international airports. Consequently, the vehicle parking charges at these airports became liable to be revised to those applicable to international airports.

It was observed in Audit (May 2003) that there were delays ranging from 25 months to 29 months in enhancement of the vehicle parking charges applicable to the airports at Bangalore, Goa, Ahmedabad and Amritsar. The consequent delay in revision of licence fee receivable from the vehicle parking contractors led to a loss of revenue of Rs.1.36 crore.

The Management stated (August 2006) that the ongoing parking contracts were continued as per the existing terms and conditions since there was no system of automatic revision of parking charges under such circumstances.

The reply of the Management was not acceptable as the contracts had provisions for midterm revision of rates and this was supported by the fact that the revision effected in October 2002 was made applicable to the existing contracts also. Moreover, any increase

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♣ ***Calculated at the rate of seven per cent adopted for working out net present value by the Authority which is the average rate of return earned by the Authority on its short term deposits***

in the licence fee payable by the contractors would be offset by the increase in the parking charges collectable by them.

The avoidable delay in revision of vehicle parking charges at international airports resulted in loss of revenue of Rs.1.36 crore.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

Indian Airlines Limited

4.3.1 Grounding of aircraft due to non-availability of spares

Avoidable expenditure of Rs.68.40 crore on repair and overhauling of engines and loss of revenue of Rs.45.96 crore due to lack of planning in the procurement of spares resulting in grounding of aircrafts.

Indian Airlines Limited (Company) had a fleet of 48 aircraft♣, fitted with V-2500 engines (September 2006). The Jet Engine Overhaul Center (JEOC) of the Company was equipped for repairing and overhauling V-2500 engines and had a capacity to overhaul an average of four engines per month. As on 30 June 2005, the JEOC had 18 engines lying with it for repair and overhauling which increased to 27 as on 30 June 2006. The average number of engines repaired and overhauled per month during this period was 2.76.

The Company was purchasing spare parts of engines from M/s. International Aero Engines (IAE), manufacturer of V-2500 engines, on 60 days credit line. Due to non payment of outstanding dues of US$ 14.73 million (Rs.64.45 crore) as on June 2005, IAE intimated (July 2005) the Company that it would supply spares worth half of the amount of payment effected henceforth by the Company till the debt was adequately brought down. This resulted in depletion of stocks and non availability of spares and other critical items required for repair and overhauling of engines. The Company during July – August 2005 managed to overhaul engines with the help of cannibalisation of modules and spares. The position thereafter worsened due to non availability of spares resulting in holding up of engines for repairs in the workshop.

In November 2005, IAE agreed to improve the flow of spares to 75 *per cent* capping of the payments effective from 1 December 2005 but the position did not improve owing to overall shortage of spares. To meet the shortage of engines, the Company took on lease three engines during the period September 2005 to October 2006 and paid lease charges of Rs.20.13 crore. Further the Company also outsourced 16 engines and 9 modules for repair and overhauling during the period January 2006 to May 2006. The Company incurred an extra expenditure of Rs.48.27 crore on labour and freight on the outsourced work leaving aside the cost of material and other costs which the Company would have had to bear even if the work was taken up in-house.

♣ *30 owned and 18 leased*

Audit observed (May 2006) that despite the above measures taken by the Management, the position did not improve and five to ten aircraft were grounded due to non availability of spares between February 2006 and June 2006.

Thus, due to lack of planning in the procurement and maintenance of inventory of spares to avoid any disruption in the repair and overhaul of engines, the Company incurred an avoidable expenditure of Rs.68.40 crore on outsourcing of engines/modules and on leasing of engines. Further the Company lost revenue of Rs.45.96 crore♦ due to grounding of aircraft from July 2005 to June 2006. The loss would continue till all the engines are overhauled and the aircraft made operational.

The matter was reported to the Management and the Ministry in May 2006 and November 2006 respectively; replies were awaited (January 2007).

4.3.2 Avoidable payment of overtime

The Company made payment of overtime of Rs.1.34 crore to the staff of Jet Engine Overhaul Complex regularly by compromising on the normal duty hours.

The Jet Engine Overhaul Complex (JEOC) of the Indian Airlines Limited (Company) is responsible for servicing and overhauling of the engines of various aircraft. As per the Memorandum of Settlement (MOS) between the Company and the Indian Aircraft Technicians Association (August 2002), the technicians are required to report for work after availing of 11 hours break from duty.

Audit observed (March 2004) that the staff of JEOC were detained on overtime regularly. In lieu of working overtime and in line with the terms of the MOS, the staff were given 'Off' during normal working hours on the next day (called 'night off hours'). To dispense with such practice, Director (JEOC) issued instructions (December 2003) to control overtime as the manpower had increased by 19 technicians in November 2003. The Director (JEOC) also ordered (January 2004) discontinuation of the practice of detaining staff on overtime beyond 2130 hours in the evening other than in exceptional cases to avoid aircraft grounding. Orders were also issued to carry out surprise checks to ensure that the staff detained on overtime were physically present. The reason behind the above orders was to avoid loss of normal working hours due to 'night off hours'.

Audit observed that during the period April 2003 to March 2006, the Company paid overtime for 6,53,650 hours which included detention of the staff on overtime for 1,12,374 hours beyond 2130 hours till 0700 hours next day, necessitating the mandatory break/rest of 11 hours which coincided with their regular duty time. This resulted in unproductive expenditure of Rs.1.34 crore on overtime without generating any additional man hours during the period April 2003 to March 2006. The detention of staff upto 0700 hours next day (23 hours approximately) was also against section 64(4)(ii) of the Factories Act, 1948 which limits the hours of work inclusive of overtime to 10 hours and the spread over, inclusive of intervals for rest to 12 hours in any one day.

♦ ***Net of saving on account of fuel and landing charges***

The Management stated (March 2005) that the quantum of work increased due to induction of additional aircraft on lease and all the divisions of JEOC being complementary to each other, the supplementary work was required to be completed immediately. The reply was not tenable because additional man-hour generated due to overtime were actually lost due to allowing 'night off hours'. Further, the orders for sanctioning overtime did not indicate any urgency or emergency arising out of grounding of aircraft. Moreover, since the time taken for repair/overhauling of each engine was two to four months, it was difficult to treat these cases as emergency requiring staff to perform overtime at the cost of regular duty hours.

Thus, the Company made avoidable payment of Rs.1.34 crore to the staff as overtime by allowing 1,12,374 hours of 'night off' during regular working hours.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

4.3.3 Loss due to non-realisation of claims from Agents

The Company did not recover from the Agents the difference between normal fare and discounted fare when the Agents had failed to achieve the sales targets as per agreements, resulting in loss of revenue of Rs.2.66 crore.

With a view to increasing the sale of passenger tickets, Indian Airlines Limited (Company) delegated powers (May 2002) to its Regional Offices to allow discount to the Agents upto 30 *per cent* on current applicable fare, in addition to normal commission, for group travel of outbound tourist traffic.

The Company (Eastern Region) entered (November 2003) into an agreement, with M/s. Giananey Travels & Tours (Agent) for a period of one year commencing on 27 November 2003. As per the terms and conditions of the agreement, the Company was to offer 20 *per cent* discount on normal fare on packages for Kolkata/Bangkok and back provided the number of passengers ticketed and travelled were (i) minimum 6,500 passengers per year for 2003-2004; (ii) minimum 1,625 passengers per quarter for the period of agreement; and (iii) not less than 10 passengers in each group. It was further stipulated that in the event of failure to meet any of the above conditions, the Agent would make good the difference between normal fare and the discounted fare by means of immediate payment to the Company.

It was observed in Audit (January 2005) that the Company did not call back the amount of excess discount allowed to the Agents though the Agent had failed to achieve the minimum quarterly target of 1,625 passengers in the first two quarters. Moreover, the Agent was allowed to carry forward the shortfall to subsequent quarters. No bank guarantee was obtained as safeguard in the event of the Agent not meeting the required numbers even in the following two quarters. The Agent, during the tenure of the agreement, could sell only 6,075 passenger tickets which fell short of the minimum annual target of 6,500 passenger tickets by 425 tickets. Therefore, the Agent was liable to refund the discount amount of Rs.1.37 crore to the Company as per the terms and conditions of the agreement but the amount was not refunded by the Agent. The Company also did not claim the refund but increased the target in the subsequent

agreement with the same Agent for a period of one year commencing on 15 December 2004 for the same sector. This time an annual target of 7,500 passenger tickets, after adding the shortfall of the first agreement, was fixed with other conditions remaining the same. The Agent failed to achieve the target during the tenure of the second agreement also and surrendered the deal on 2 July 2005. The Company claimed (November 2005) Rs.99.17 lakh for the second agreement being the difference between normal fare and discounted fare on the sale of 2,483 passenger tickets by the Agent which had not been paid by the Agent (December 2006).

The Management stated (May 2005) that the discount amount in respect of the first agreement had not been recalled from the Agent in view of its good performance during 2002-03. Keeping in view the overall performance of the Agent during the deal period, it was also decided not to obtain bank guarantee or advance cheque but the deficit of 425 passenger tickets was added to the next year's target by enhancing the passenger target from 7,000 to 7,500.

The reply of the Management was not acceptable as reward or penal action specified in an agreement is to be implemented strictly in terms of the stipulations made in the agreement and should not be linked with extraneous issues. The loss of revenue could have been avoided by the Company if they had obtained bank guarantee for the excess discount allowed to the Agent in each quarter.

Similarly, Audit observed that in another case, the Agent M/s. Laxminarayan Air Travels (P) Limited could not achieve the target set as per its agreements with the Company for the period November 2004 to December 2005 in the sectors Kolkata/Kathmandu and Kolkata/Bangkok and fell short by 463 passenger tickets. In this case also the Company had not safeguarded its interest by taking bank guarantee from the Agent. The Company demanded Rs.29.81 lakh (February 2006) from the Agent being the difference between the normal fare and the post discount fare but the same had not been paid by the Agent so far (May 2006).

Thus, undue favour granted to the Agents resulted in loss of revenue of Rs.2.66 crore.

The matter was reported to the Ministry in October 2006; reply was awaited (January 2007).

Indian Airlines Limited and Pawan Hans Helicopters Limited

4.4.1 Irregular payment of bonus/ex-gratia to the employees

Indian Airlines Limited and Pawan Hans Helicopters Limited paid bonus/*ex-gratia* to ineligible employees in contravention of the Department of Public Enterprises instructions and without the approval of the Administrative Ministry resulting in irregular payment of Rs.16.44 crore.

According to the provisions of the Payment of Bonus Act, 1965 (Act) and DPE instructions dated 20 November 1997, no bonus/*ex-gratia* was to be paid by a Public Sector Undertaking (PSUs) to its employees, who were not entitled to bonus/*ex-gratia* under the provisions of the Act on account of their wage/salary exceeding Rs.3,500 per

month, unless the amount was so authorised by the Government under a duly approved incentive scheme, framed in accordance with the prescribed procedure.

The payment of bonus/*ex-gratia* by a large number of PSUs to their ineligible employees has been pointed out in the various Audit Reports (Commercial)[♣]. The matter was referred (October 2005) to DPE for seeking clarification as to whether such payment of bonus/*ex-gratia* was consistent with DPE's instructions. DPE clarified (December 2005) that the payment of bonus/*ex-gratia* to ineligible employees was not allowed as per its instructions dated 20 November 1997 and there was no provision for DPE/ Administrative Ministry to approve the payment of the same to ineligible employees in PSUs.

Audit observed (July/February 2005) that Indian Airlines Limited and Pawan Hans Helicopters Limited were paying bonus/*ex-gratia* to their employees in contravention of DPE instructions.

Indian Airlines Limited (IAL) paid *ex-gratia* of Rs.5.08 crore at the rate of Rs.4,000 to 12,707 ineligible employees during 2003-04 and Rs.9.25 crore at the rate of Rs.5,000 to 18,504 ineligible employees during 2004-05. The payment was made without the approval of the Board and the Administrative Ministry.

Pawan Hans Helicopters Limited (PHHL) paid bonus/*ex-gratia* amounting to Rs.2.11 crore at the rate of 20 *per cent* of salary subject to a maximum of Rs.6,000 to its employees, who were not entitled to bonus/*ex-gratia* during the period April 2000 to March 2005 in contravention of DPE instructions. The *ex-gratia* was paid in addition to the productivity linked incentive scheme of the Company.

The Management of IAL stated (January 2006) that in view of the agitation launched by the Air Corporation employees union it was decided to pay bonus in October 2004. Bonus was a budgeted revenue expenditure and the BOD of the Company approved the budget. As regards approval of the Administrative Ministry, the Company stated that the BOD of the Company is competent to approve such payments.

The Management of PHHL stated (September 2005/ June 2006) that it was declaring bonus at the rate of 20 *per cent* from the financial year 1992-93 onwards in terms of the Payment of Bonus Act, 1965 and employees who fell outside the purview of the said Act were being paid an equal amount as *ex-gratia*. The Company further stated that though the DPE stipulate that bonus/*ex-gratia* was not payable to the employees not coming under the ambit of the Payment of Bonus Act, it was paying *ex-gratia* to the employees with the approval of the BOD in view of the practice prevalent in other Public Sector Undertakings.

The reply of the Management was not tenable as the employees of PSUs who were not entitled to payment of bonus/*ex-gratia* under the Act on account of their wage/salary exceeding the limit were debarred from receiving the same from PSUs as per DPE's guidelines.

[♣] ***Reports of the Comptroller and Auditor General of India (Commercial) No.3 of 1994, 1995, 1999 to 2004 and Report No.13 of 2006***

Thus, the payment of bonus/*ex-gratia* amounting to Rs.16.44 crore by these two Companies (IAL - Rs.14.33 crore and PHHL - Rs.2.11 crore) to the ineligible employees was irregular and inconsistent with the provisions of the Act as well as the instructions of the DPE.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).

Pawan Hans Helicopters Limited

4.5.1 Irregular payment of arrears of House Rent Allowance and City Compensatory Allowance

The Company made payment of arrears of House Rent Allowance and City Compensatory Allowance in contravention of the provisions of Department of Public Enterprises guidelines, resulting in irregular payment of Rs.1.45 crore.

The DPE issued guidelines (June 1999) on revision of pay scales in Central Public Sector Undertakings (PSUs) effective from 1 January 1997. It stipulated that House Rent Allowance (HRA), City Compensatory Allowance (CCA), payment for leased accommodation and rent recovery may be computed on revised basic pay but the amount to be paid or recovered would be from the date of implementation of these guidelines. DPE further clarified (March 2000) that these orders would be implemented from the date of issue of the Presidential Directive revising the pay scales. The Ministry of Civil Aviation also informed (February 2001) the Company that pay related allowances such as HRA, CCA *etc.* are to be paid in accordance with the instructions issued by DPE.

The BOD of Pawan Hans Helicopters Limited (Company) approved (September 2002) the revision of pay scales of staff and executives with effect from 1 January 1997 and pay related allowances such as HRA and CCA *etc.* with effect from 25 June 1999, *i.e.* the date of issue of DPE's guidelines. The decision of the BOD to extend such benefit from 25 June 1999 contravened DPE guidelines which had clearly stipulated revision of pay related allowances such as HRA, CCA *etc.* only from the date of issue of Presidential Directive which was 2 February 2001. The Company made irregular payment between November 2002 and April 2003 of arrears of Rs.1.45 crore on account of HRA and CCA for the period from 25 June 1999 to 1 February 2001.

The Management stated (September 2005) that as per the MOU with various categories of employees, the enhanced amount of HRA and CCA was to be paid from January 1997. However, the BOD after detailed deliberations, decided to give the benefit from 25 June 1999 *i.e.* the date of issue of DPE guidelines, which was considered the "date of implementation" by the Company.

The reply of the Management was not tenable as the DPE had clearly instructed that any increase in HRA/CCA consequent on revision of pay scales would be payable from the date of implementation of pay scales *i.e.* the date of issue of Presidential Directive revising the pay scales. Thus, the payment of arrears of Rs.1.45 crore made by the

Company on account of HRA and CCA was irregular and inconsistent with the provisions of the DPE guidelines.

The matter was reported to the Ministry in November 2006; reply was awaited (January 2007).