CHAPTER IV: MINISTRY OF CIVIL AVIATION

Air India Limited

4.1.1 Continued undue favour to a firm and undermining of Parliamentary control

In disregard to the recommendations of the Committee on Public Undertakings, Air India Limited did not quantify the excess amount paid during the years 1998-99 and 1999-2000 to a sales agent and continued to extend undue favour to the party.

Paragraph 3.1.1 of the Report of the Comptroller and Auditor General of India, Union Government (Commercial) (No. 3 of 2002) brought out the case of undue favour by way of excess payment of Rs.57.02 crore extended by Air India Limited (Company) to its General Sales Agent *viz.*, M/s. Welcome Travels appointed for UK during 1987-2000. The excess payment included Rs. 13.82 crore paid during the three years 1997-98 (GBP£ 0.65 million), 1998-99 (£ 0.69 million) and 1999-2000 (£ 0.69 million) which was not admissible due to application of incorrect principle of calculation.

The matter was examined by the Committee on Public Undertakings (COPU), 13th Lok Sabha, in detail. The COPU in its Ninth Report (2002-03) had recommended (April 2003) that the Government should:

(i) in the first instance, quantify the amount of excess payment made to the GSA;

(ii) Make all out efforts for recovery of the excess payment; and

(iii) Terminate the existing arrangement with M/s. Welcome Travels in case the party did not agree to repay the excess amount.

The COPU also recommended that the report of an 'internal committee' appointed by the Company to explore alternative means of marketing and distribution should be finalised and implemented within two months from the date of presentation of the Report.

The Company appointed (July 2000) M/s. Welcome Travel, M/s. Travelpack and M/s. Somak Travel Limited as consolidators and switched over the sales arrangement through the consolidators with effect from July 2000.

The COPU (fourteenth Lok Sabha) in its Fourth Report (2004-05) on 'Action Taken by the Government' (ATR), on this matter expressed displeasure on the evasiveness and delay in implementation of its recommendations by the Company as well as the Government and recommended (April 2005) once again that the Company should vigorously pursue the case and make all out efforts for expediting the recovery of the excess payment from M/s. Welcome Travel besides developing alternative marketing channels within a definite time frame of two months of these recommendations.

Audit review (March 2006) revealed that the Company recovered (February 2006) an excess amount of only £ 0.27 million (Rs.2.16 crore) which had been paid to M/s. Welcome Travel for the year 1997-98 and had been established by Central Bureau of Investigation and had made no efforts to quantify and recover the excess amount for the remaining two years period 1998-99 to 1999-2000.

From December 2005, the Company appointed five consolidators *viz.,* M/s. Welcome Travels, M/s. Southall Travels, M/s. Travelpack, M/s. Somak Travel Limited and M/s. Brightsun Travel for UK region. The Consolidators were to provide a bank guarantee against their projected sales. Based on the recommendations of the Company's internal committee, all the consolidators were advised by the Company's sales office at London in December 2005 to report their sales through Bank Settlement Process (BSP).

Initially when the revised arrangement came into force in December 2005, of the five consolidators, only M/s. Welcome Travel continued to issue manual tickets obtained from the Company and settle the accounts separately through cheques outside BSP, while the others reported their sales through BSP. The Company issued manual tickets to M/s. Welcome Travel from its stock without obtaining any extra bank guarantee. However, later two more consolidators *viz.,* M/s. Somak travel and M/s. Travelpack besides reporting of their sales through BSP also started obtaining manual tickets from Air India Limited and settle the accounts separately through cheques. Other two consolidators *viz.,* M/s. Brightsun Travel and M/s. Southall Travel were reporting sales through BSP only.

Thus, in total disregard to the recommendations made by COPU, the Company failed to quantify the excess amount paid to M/s. Welcome Travel during the years 1998-99 and 1999-2000 and recover it. Further, the Company continued to extend further undue favour to M/s. Welcome Travel by allowing them to follow a different set of procedures in issuing tickets and settling payment.

In reply, the Management stated (December 2006) that there was no excess payment due for recovery from M/s. Welcome Travel beyond 1997-98. The Company however, did not provide the basis on which it had concluded that no further amount was due for recovery from M/s. Welcome Travel and, hence, the reply was not acceptable. Further, while the Company's internal committee suggested the manner of developing alternative market channels, M/s. Welcome Travel was allowed to follow a manual settlement procedure. The Management was silent on this issue in its reply.

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

4.1.2 Extra expenditure due to not finalising the tender for cabin crew accommodation

Air India Limited did not finalise the tender for cabin crew accommodation despite securing a tender at rates lower than the rates payable as per the existing contract and consequent extension of prevailing contract for three years resulting in extra expenditure of Rs.10.87 crore.

Air India Limited (AIL) entered into an agreement (December 2002) with Intercontinental Hotel, Frankfurt for cabin crew accommodation at Euro 99 *per* room *per* day. The rate was subsequently (June 2004) reduced to Euro 94.36. As the agreement was to end in December 2004, AIL floated tender for cabin crew accommodation in August/September 2004. In response to the tender, eleven hotels quoted and on the basis of the services offered, capacity to provide required number of rooms, *etc.* AIL short listed eight hotels. The Hotel Evaluation Team (HET) of AIL comprising representatives from Inflight Services Department, Finance and All India Cabin Crew Association (AICCA) along with the Airport Manager, Frankfurt inspected the eight hotels in November 2004.

The HET found four of the eight short listed hotels as technically suitable. However, AICCA representative gave a dissent note on technical suitability of two of the four hotels stating that these hotels did not have proper lighting arrangements, 24 hours coffee shop, room service and availability of Indian meals in the vicinity of the hotels, *etc.* These issues had also been considered by the other members of the HET and based on their observation that sufficient eating outlets were available within the walking distance and the concerned hotel had given an assurance in writing that the lighting would be appropriately arranged, the HET included the two disputed hotels in the list of technically suitable hotels. AIL opened (November 2004) the financial bids of the four technically qualified hotels. The rate quoted by Intercontinental Hotel was the highest at Euro 101.31. The rates quoted by two hotels, objected to by the AICCA representative, were found to be the lowest (L_1) at Euro 74 and second lowest (L_2) at Euro 81.34. However, no fresh contract was awarded and instead the prevailing contract with Intercontinental Hotel at comparatively higher rates (Euro 94.36) was periodically extended with effect from 6 December 2004 onwards till date (November 2007).

Audit observed (June 2006) that despite finding the reservations of the AICCA representative unfounded and opening of the financial bids of all the four technically qualified hotels, AIL did not award the contract to the L_1 hotel which was cheaper compared to the existing rate of Intercontinental Hotel and instead, AIL continued to extend the existing contract with Intercontinental Hotel from December 2004 till date (November 2007) at the higher rates. Thus, failure of AIL in awarding the contract to the lowest bidder resulted in an avoidable extra expenditure of Rs.10.87 crore during the period from December 2004 to November 2007.

The Management in reply stated (August 2007) that the Company decided not to house cabin crew in the two hotels (which ranked L_1 and L_2 in the bidding process) in view of the objection of AICCA representative and that the contract could not be awarded to the L_3 hotel as Central Vigilance Commission (CVC)'s guidelines prohibited awarding of contract other than to L_1 party and that fresh tendering process had been initiated. The Management confirmed that interim arrangement was continuing with Intercontinental Hotel. The Ministry endorsed (November 2007) the Management's reply.

The reply was not tenable as the Management's decision to open financial bid of technical suitable hotels indicated that the objections of AICCA representative had been considered by the HET and the majority recommendation had been made. In case it felt that the issues were not resolved with AICCA and considering the CVC guidelines, the

Company could have gone in for a fresh tendering process immediately in 2004-05 to get the most economical rates.

Thus, failure to award the contract to the technically and financially acceptable offer of L_1 hotel and extensions to the prevailing contract with Intercontinental Hotel at the rate higher than that of L_1 hotel resulted in avoidable expenditure of Rs.10.87 crore from December 2004 to November 2007.

4.1.3 Avoidable extra expenditure on hotel accommodation for cabin crew

Air India Limited incurred an avoidable extra expenditure of Rs.1.33 crore during the period from December 2005 to October 2006 by not accepting the offer for a long term agreement of the hotel providing accommodation to cabin crew.

Regional office of Air India Limited (Company) at New York invited quotations (August 2004) from local hotels to accommodate its cabin crew. On the basis of the bids received, Air India accepted (October 2004) the offer of Hotel Pennsylvania at a negotiated rate of US$ 110 *per* day plus taxes for the period from 22 October 2004 to 21 March 2005. During the negotiations, the hotel offered to extend the agreement upto 22 October 2006 at the same rate *i.e.,* for two years, which was not accepted. The Company opted for a limited period agreement from 22 October 2004 to 31 March 2005.

Audit observed (December 2006) that though the offer of the hotel for a long term arrangement was not accepted, the limited term arrangement ending 31 March 2005 was extended from time to time till 30 November 2005 at the same rate *i.e.,* US$ 110. With effect from December 2005, the hotel increased the rate to US$ 125 *per* day plus taxes which was accepted by the Company. Thus, due to its failure to avail of a cheaper offer of a long term contract upto October 2006, the Company incurred extra expenditure of Rs.1.33 crore[*] approx (US$ 0.29 million) on account of rate differential on 19,442 rooms booked in the hotel from 1 December 2005 to 22 October 2006.

The Management in its reply (June 2007) stated that the long-term contract could not be accepted because of the objection of Air India Cabin Crew Association (AICCA) and also because they were making efforts to obtain cheaper rates from other hotels.

The reply was not tenable since the Technical Evaluation Committee comprised a representative of AICCA and the Committee recommended the acceptance of the hotel. Moreover, the crew had stayed in the same hotel in the past and in fact, had been staying there since October 2004 till date (June 2007). Further, the Management accepted (January 2007) that the rate offered by the hotel was the best available deal. In so far as identifying cheaper options, it was only in January 2007 that the Company initiated efforts to identify alternate accommodation.

Thus, failure of the Company to capitalise on a long term, economical offer and opting for short term arrangements at higher rates for the accommodation of its cabin crew led to avoidable extra expenditure of Rs.1.33 crore.

The matter was reported to the Ministry; reply was awaited.

[*] ***Converted at an average rate of Rs.45.53 per US$***

Airports Authority of India

4.2.1 Avoidable payment of sales tax at higher rate

The Authority did not avail the benefit of lower rate of sales tax at the time of placing order which resulted in avoidable payment of Rs.3.59 crore.

The Airports Authority of India (Authority) placed an order for purchase of spares for radar equipment from Bharat Electronics Limited, Ghaziabad, Uttar Pradesh (BEL) based on the recommendations of a negotiating committee. The negotiating committee *inter-alia* also recommended (5 December 2002) that the Authority should engage a consultant to suggest ways and means of reducing the impact of sales tax to the extent possible, on its procurements. The Authority however, did not engage a consultant or reviewed the impact of sales tax and placed an order (20 December 2002) on BEL for supply of spares for an aggregate value of Rs.88.09 crore. As per the purchase order the point of delivery was Central Radio Stores Depot, New Delhi, attracting ten *per cent* sales tax. Major portion of the spares were to be delivered within six months from the date of the order.

The Authority engaged a consultant, on 11 June 2003 after six months of the placement of purchase order and negotiating committee's recommendation. The consultant recommended (30 August 2003) that to avail four *per cent* sales tax applicable to electronic components, the first point of delivery should be within the State. Accordingly, the Authority changed the delivery point from New Delhi to Sikandrabad in Uttar Pradesh and issued (21 October 2003) a suitable amendment to the purchase order.

However, by the time of the issue of the amendment, materials worth Rs.59.88 crore had been delivered at New Delhi after payment of Central Sales tax at ten *per cent* amounting to Rs.5.99 crore. The balance quantity was delivered at Sikandrabad at a lower rate of sales tax at four *per cent* (November 2005). The differential sales tax paid on deliveries prior to 21 October 2003 amounted to Rs.3.59 crore.

The Management stated (February 2007) that in appointment of the consultant the Authority was required to follow due procedure which took time. The reply was not acceptable. Even though it may have taken some time in the appointment of Sales Tax consultant, the Uttar Pradesh Government notification (issued on 29 January 2000) regarding applicability of four *per cent* sales tax for sale within the State on electronics goods was available in the public domain. Besides, the Authority engaged the consultant without going through the due processes.

Thus, the failure in recognising the availability of lower rate of sales tax at the first instance and the delay in engaging a consultant resulted in an avoidable extra payment of sales tax of Rs.3.59 crore.

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

4.2.2 Loss of revenue of Rs.1.60 crore in award of car parking contract at Chennai Airport

The Authority awarded car parking contract at a lower rate on *ad hoc* basis and extended undue benefit to the contractor.

The Airports Authority of India (Authority) manages car parking facilities at airports through contractors. The Authority contracted Ravindra Joshi Medical Foundation (RJMF) for managing the parking at Kamaraj Domestic and Anna International Terminals of Chennai airport for a licence fee of Rs.21.78 lakh *per* month. The contract was upto 31 October 2002. In anticipation of expiry of the contract, the Authority invited tenders (May 2002) for new contract at Minimum Reserve Licence Fee (MRLF) of Rs.21.78 lakh *per* month. However, the contracting process could not be finalised due to the direction of the Madras High Court (May 2002) to hold in abeyance the opening of the tenders till its final decision on the appeal filed by some bidders challenging the eligibility criteria in the Notice Inviting Tenders (NIT) issued by the Authority.

Since RJMF defaulted in remitting the licence fee and was willing to continue with the contract only for a licence fee of Rs.14 lakh *per* month, the Authority decided in September 2002 to terminate the contract before the date of expiry (31 October 2002). Pending finalisation of the new contract, an *ad hoc* arrangement for managing the car park was made on 17 September 2002 with the existing cargo complex contractor M/s. Nav Bharat Enterprises (NBE) for a period of three months at a negotiated licence fee of Rs.15 lakh *per* month. The contract with NBE was renewed/extended periodically and the fee was also periodically revised[1] after negotiations with NBE and was fixed at Rs.33.03 lakh *per* month with effect from June 2005.

In the meantime, the Madras High Court dismissed the petition in August 2003 with the direction to the Authority to amend the definition of the word 'Turnover' in the NIT. The Authority after attending to the Court's direction and revising the MRLF to Rs.37 lakh *per* month, called for fresh tenders in May 2005 which were opened in September 2005. A regular contract was awarded to the existing *ad hoc* contractor (NBE) at highest quoted licence fee of Rs.70.21 lakh *per* month in October 2005.

Audit scrutiny (January 2007) revealed that though the established licence fee with the regular contractor (RJMF) was Rs.21.78 lakh at the time of rescinding the contract, *ad-hoc* contractor was engaged at the licence fee of Rs.15 lakh. Audit also observed that the rates of *ad hoc* licence fee charged from NBE from time to time were much below the contemporary MRLF which resulted in loss of revenue of Rs.1.23 crore[2]. Further, although the Court dismissed the bidder's petition in August 2003 with the direction to the Authority to amend the definition of the word 'Turnover' in the NIT, the Authority took more than one year (September 2004) to do so. It took another six months (April

[1] ***Rs.15.00 lakh w.e.f. 19 September 2002, Rs.18.75 lakh w.e.f. 1 November 2002, Rs.21.00 lakh w.e.f. 19 September 2003, Rs.23.68 lakh w.e.f. 20 September 2004, Rs.31.00 lakh w.e.f. 6 May 2005 and Rs.33.03 lakh w.e.f. 20 June 2005***

[2] ***Difference between ad hoc licence fee charged and MRLF fixed in May 2002 (Rs.21.78 lakh per month) increased at an annual rate of 10 per cent per annum as per the provision of Commercial Manual during the period September 2002 to May 2005 and thereafter at the MRLF fixed (Rs.37 lakh per month) upto 16 October 2005.***

2005) to assess through a survey, the revenue potential and fix the MRLF at Rs.37 lakh *per* month. The final contract was awarded only in October 2005. Thus, the Authority took more than two years to award the contract after the Court's verdict. It was further noted in Audit that NBE was permitted to avail 30 days gestation period after award of the regular contract in October 2005 despite there being no provision to the effect in the contract. It continued to pay licence fee at lower rate of Rs.33.03 lakh *per* month instead of Rs.70.21 lakh *per* month upto 16 November 2005 causing a further loss of revenue of Rs.37.18 lakh.

The Management stated (April 2007) that the time taken in defining the term 'Turnover' was because of the clearances required from many agencies *viz.*, corporate headquarters, Commercial Advisory Board, the Board of Directors and the committee constituted for the purpose. The Management further stated that NBE was permitted 30 days gestation time to mobilise their resources for regular contract and there was no financial loss as NBE paid the amount of pre tender negotiated licence fee of Rs.33.03 lakh during the gestation time of 30 days.

The reply of the Management was not tenable because the initial negotiated licence fee should not have been so significantly less than the licence fee paid by the regular licencee (RJMF) and MRLF fixed by the Authority. Further, the time taken in defining the term 'Turnover' was abnormally long considering that all the agencies involved were within the organisation. The Management's reply of allowing gestation period of 30 days was also not tenable because there was no provision to this effect in the contract and especially as the same contractor who was with the Authority since 2002 was being continued albeit on regular basis and on his quoted rates.

Thus, the Authority suffered revenue loss of Rs.1.60 crore due to avoidable delay in award of regular contract, ad hoc contract being engaged at a lower rate and extending undue benefit to the contractor.

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

4.2.3 Loss of interest of Rs.1.42 crore due to avoidable payment of Corporate Tax

Airports Authority of India incurred loss of interest of Rs.1.42 crore due to avoidable payment of Corporate Tax on unrealised licence fee for land allotted to oil companies at Hyderabad airport.

The Hyderabad airport, prior to formation (April 1995) of the Airports Authority of India (Authority), allotted land measuring 3,283.30 square metre to Bharat Petroleum Corporation Limited (BPCL) and 4,925.17 square metre to Indian Oil Corporation Limited (IOCL) for maintaining Aviation Fuelling Service Stations and entered into agreements with the two Companies. The agreements stipulated payment of licence fee at the rate of Rs.72 *per* square metre *per annum*. The agreements expired in November 1996 and March 1998, respectively.

In March 1998, the Authority unilaterally and retrospectively from April 1997 increased the licence fee from Rs.72 *per* square metre to Rs.1,076 *per* square metre *per annum* with

ten *per cent* annual escalation. Accordingly the airport raised bills at the increased rates during November 1999 to March 2003 covering the period from April 1997 to March 2003 and accounted the same as income in its financial reports. However, both BPCL and IOCL refused to pay the licence fee at the increased rates stating that these were on the higher side and continued to pay licence fee at the old rate of Rs.72 *per* square metre *per annum*. In March 2003, the Authority decided that where there was no negotiated settlement, the licence fee from the oil companies would be accounted for at the rates agreed to by them. The rate agreed to and paid by the oil companies at the Hyderabad airport was only Rs.72 *per* square metre *per annum* since April 1992. While the Authority accounted the licence fee at this rate for the subsequent periods, it did not reverse the amount of licence fee amounting to Rs.6.44 crore already billed and accounted for at the increased rates for the period from April 1997 to March 2003.

While auditing the annual financial statements, Audit had been questioning the recognition of licence fee at unilaterally revised rates as revenue since 2000-01. The Management at that stage had assured that in case the amounts were not realised within two years, the amounts recoverable would be suitably adjusted in the accounts of the Authority. It was observed in Audit (April 2006), that by recognising revenue the recovery of which was "doubtful" *ab initio*, the Authority became liable and paid Corporate Tax of Rs.2.49 crore in the assessment years 2001-02 to 2003-04. Further, even after taking the decision to recover the licence fee only on agreed rates in March 2003, the Management did not write off the amounts that were not recoverable thereby losing an opportunity to deduct the unrecoverable amount from its taxable income for the assessment year 2004-05. Consequently, due to an outflow of cash for payment of Corporate Tax, the Authority lost interest of Rs.1.42 crore.

The Management stated (August 2006) that in consultation with other oil companies it was decided that the already billed amount need not be reversed as the Corporate Tax paid would get adjusted whenever accounting entries, if necessitated were passed. The Management's reply was not tenable as the Management had reversed the excess licence fee of Rs.6.44 crore in the accounts for 2006-07, an issue that had earlier been commented by Audit.

Thus, the decision to account for the licence fee at increased rates without valid agreement resulting in payment of avoidable Corporate Tax in the first instance resulted in blocking up of funds and loss of interest of Rs.1.42 crore[*] during the period 2000-01 to 2006-07.

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

4.2.4 Loss of interest due to imprudent investment in a State Financial Institution

Imprudent investment in Pradeshiya Industrial and Investment Corporation despite poor financial indicators resulted in loss of interest of Rs.1.16 crore.

[*] ***Calculated at the rate of interest received by the Authority on investment of surplus funds***

The International Airports Authority of India Employees Contributory Provident Fund (IAAI-ECPF) Trust (Trust) invests its surplus funds in designated securities and bonds[*] which are ratified and approved by the Board of Trustees.

The Trust made an investment (December 2001) of Rs. two crore in 13 *per cent* Bonds of Pradeshiya Industrial and Investment Corporation of UP Limited (PICUP), an Uttar Pradesh Government Undertaking, with maturity of seven years and interest payable at half yearly rests. PICUP stopped making payment of interest due in April 2003 and onwards due to its bad financial position and declining trend of interest rates in the market and in October 2003 sought a reduction in the rate of interest to 10 *per cent* or refund of the outstanding amount as soon as its cash flow position permitted. In October 2004, PICUP informed the Trust that it would refund only the principal amount provided the interest was foregone. The Trust did not accept the offers made by PICUP and insisted upon repayment of loan on the agreed terms and conditions. The impasse continued till January 2007, when the Trust decided in principle, to accept PICUP's offer of repayment of principal without payment of interest.

Audit observed that before investing in PICUP bonds, the Trust had not considered the poor financial position of PICUP. As on 31 March 2001, PICUP had accumulated losses of Rs.216.26 crore which were more than the paid-up Capital and Reserves and Surplus of the Company, *i.e.,* net worth was negative and had incurred a loss of Rs.70.66 crore during 2000-01. Further, the Trust did not initiate any legal action to realise the dues; principal or the interest thereon. As of August 2007 both principal of Rs. two crore and outstanding interest of Rs.1.16 crore earned upto March 2007 remained unrealised.

The Management stated (April 2007) that the decision to invest was taken since the bonds were guaranteed by the State Government and the rate of interest quoted by PICUP was the highest. And, no recovery suit was initiated as the attempt was to deal with the issue in a pragmatic way while the UP Government had not responded to the Trust.

The Management's reply was not acceptable as one of the major criteria for investment in bonds is the ability of the entity to repay. The poor financial position of PICUP was evident from its financial statements. Moreover, the PICUP bonds did not have the investment grade rating from any credit rating agency while alternate investment opportunities being considered at that point had these ratings. Despite the persistent default of PICUP and its repeated counter offers, the Trust neither took timely action to exit the investment nor sought any legal recourse to recover the dues. The Trust also did not vigorously pursue the invoking of the guarantee clause with the State Government.

Thus, poor financial appraisal and indecision in exiting the investment resulted in loss of interest of Rs.1.16 crore besides blocking funds of Rs. two crore.

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

[*] ***Public Sector Bonds, Central Government Securities and State Government Bonds***

4.2.5 Loss of revenue due to non-recovery of licence fee and royalty from the licencee of Duty Free Shops

The Authority did not recover licence fee and royalty from M/s. Flemingo International Limited as per the terms of granting licence to run duty free shops at five airports resulting in loss of revenue of Rs.1.02 crore.

The Airports Authority of India (Authority) awarded (29 November 2002), a consolidated licence for running Duty Free Shops (DFS) at Lucknow, Amritsar, Jaipur, Guwahati and Thiruvananthapuram airports to Flemingo International Limited, Dubai, UAE (FIL). As per the terms of the award letter, the licencee was allowed a period of 90 days to start commercial operations from the date of award which was extendable by a further period of 30 days (*i.e.,* upto 28 March 2003). This included time required for obtaining all statutory clearances. The Commercial Manual of the Authority also allowed a maximum gestation period of 120 days, including 30 days, for grant of No Objection Certificate/approval of plan by the Authority for such contracts. The Authority entered (December 2002) into a licence agreement to this effect with FIL, valid for five years. Clause 3(a) of the licence agreement stipulated that the licence fee was payable from the date of taking over possession and royalty was payable after the expiry of 90 days from the date of taking over of the site or from the date of commencement of business whichever was earlier.

After entering into the agreement, FIL conveyed (February 2003) to the Authority that the business under the agreement would be carried out by its subsidiary, M/s. Flemingo DFS Private Limited. FIL further requested for permission to defer the take over of the sites for DFS sites as clearance from the Foreign Investment Promotion Board (FIPB), which was mandatory for the party having foreign holdings to begin operations, was awaited. As the Authority did not accede to this request, FIL again sought waiver (September 2003) from payment of licence fee and royalty till commercial operations commenced. The Commercial Advisory Board (CAB) of the Authority considered the request of FIL and decided (November 2003) that the applicable licence fee and royalty would be levied from the date that FIL took possession of the sites at the respective airports or the date from which FIB clearance was received, whichever was earlier.

Meanwhile, the DFS sites at Lucknow, Amritsar and Jaipur airports were made available to FIL in April 2003 and the site at Thiruvananthapuram in March 2003. The possession of these sites was taken over by FIL on 12 May 2003, 15 October 2003, 12 May 2003 and 27 March 2003, respectively. FIL received FIPB clearance on 20 October 2003.

Audit observed (March 2006) that the Authority failed to recover the licence fee and royalty from FIL from the date it took possession of sites at Lucknow, Jaipur and Thiruvananthapuram resulting in under recovery of revenue of Rs.36.37 lakh. Further, FIL was not billed for the site at Guwahati airport at all as FIL refused to inspect the site at Guwahati airport citing absence of international flight operations from that airport as the reason. Audit scrutiny revealed that international flights from Guwahati airport remained suspended between October 2003 and December 2004 but FIL did not take possession of the space even subsequent to this period. As per clause 33 of the licence agreement, the party was not entitled to any reduction in licence fee and royalty due to suspension or withdrawal of the operations by the airlines. Hence, the Authority failed to

recover licence fee and royalty of Rs.65.66 lakh from FIL for the DFS site allotted at Guwahati airport from November 2003[*] till March 2007.

The Management stated (August 2006) that as per clause 3(a) of the licence agreement, the royalty was payable after the expiry of 90 days from the date of taking over of the site or from the date of commencement of business whichever was earlier and that royalty was accordingly worked out from April 2003 for Amritsar, Jaipur and Lucknow airports. As regards Guwahati airport, the Management besides reiterating the position regarding non-operation of international flights also stated that earmarked space was utilised for operational purposes including office space for Central Industrial Security Force (CISF). The Management's reply was silent about Thiruvananthapuram airport.

The Management's reply was not acceptable as clause 3(a) in the licence agreement was deficient to the extent that it did not prescribe any time period for taking over of the sites and as such did not put limit to the time for taking possession/beginning of commercial operations. Further the licence fee/royalty was charged from dates later to the dates of taking possession of DFS sites at Thiruvananthapuram, Jaipur and Lucknow airports despite CAB's decision to levy licence fee/royalty from the date of taking over possession of space of the respective airports or date of FIPB clearance, whichever was earlier.

As regards Guwahati airport, Audit observed that international flights remained suspended only for a specific period. It can be inferred that FIL did not takeover the DFS site at Guwahati airport due to low business potential although the licence for DFS was a consolidated licence for five stations which included airports with heavy as well as low international traffic. As such it was not proper to allow FIL to start DFS operations on a selective basis. The Management's contention regarding utilisation of space at Guwahati for CISF office is also not tenable as originally the space was earmarked for commercial activity.

Thus, by not charging licence fee and royalty as per CAB's decision from the date of taking possession at Thrivananthapuram, Jaipur and Lucknow airports and from date of FIPB clearance at Guwahati airport, the Authority suffered a revenue loss of Rs.1.02 crore.

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

Indian Airlines Limited

4.3.1 Rejection of Maintenance Cost Guarantee claims due to non-availability of records

Maintenance Cost Guarantee claims of Rs. 51.74 crore (US$ 12.27 million) were rejected as the Company failed to furnish records in support of the claim.

[*] *Month subsequent to FIPB clearance*

Indian Airlines Limited (Company) inducted (1989) A-320 aircraft fitted with V2500 engines manufactured by M/s. International Aero Engines (IAE). IAE provided Maintenance Cost Guarantee (MCG) on its engines for a period of ten years ending 30 June 1999. As per the agreement, the annual maintenance cost of engines would not exceed the guaranteed cost rate. If during any year, actual cost of maintenance of engines exceeded the guaranteed cost, IAE would credit the Company with 75 *per cent* of the excess cost. Further as per agreement the Company would prefer its claim within 30 days following expiry of each anniversary.

During the first eight years the engines and modules were outsourced to IAE partners for repairs and the invoices were considered for MCG claims. During the ninth year 11 engines were outsourced to IAE partners for repair while 14 engines were handled in-house at the Jet Engine Overhaul Complex (JEOC). In the absence of separate records, while settling the MCG claim for engines handled in-house, IAE accepted the average cost of material consumed in repair by outside agencies for the 14 engines repaired in-house and an average labour cost of 5,000 man hours @ US$ 50 *per* man hour for all the engines.

In the tenth year (July 1998 to June 1999) though all the engines were handled in-house at JEOC, the Company continued to maintain material consumption records as required for internal use. Prior to submission of the MCG claim by the Company, IAE released an amount of US$ four million on *ad hoc* basis between May and August 2001. In January 2002, the Company submitted working papers for claims of US$ 25.19 million computed on the basis of average rates adopted during the ninth year. While IAE released another US$ four million in March 2002, it did not agree (January 2004) for further payment in the absence of documented evidence in support of the claim. The Company submitted a revised claim of US$ 20.27 million in August 2005. However, IAE again reiterated (January 2006) its position on requirement of detailed documentation in support of the claim before any further payment could be released. The Company had not been able to submit the documentary evidence to satisfy IAE till June 2007.

Thus, due to the non-maintenance of cost records for material and labour consumed for each shop visit of the engine by the Company, there is unlikelihood of realising the balance claim of Rs.51.74 crore[1] (US$ 12.27 million). Even if the claim is reconsidered by IAE, the Company has been incurring a loss of interest of Rs. five crore *per annum* as interest on non-receipt of funds and this amounts to Rs.38.86 crore[2] during the period August 1999 to April 2007.

The Management stated (April 2007) that there were no specific guidelines set out in the MCG document in this regard and since it would have been very time consuming to extract the data, both the parties agreed to adopt the averaging method paving the way for negotiated settlement. Further loss of interest due to non-settlement of MCG claim is hypothetical since the Company at any given time owed the amount to IAE towards sale of spares and repairs.

[1] ***Conversion at the rate of Rs.42.18 per US$***
[2] ***Based on an average interest rate of 9.69 per cent***

The reply of the Management was not tenable as IAE has not agreed to adopt the averaging method for settlement of claim in the tenth year of the MCG. The fact was that the Company failed to develop systems of documentation maintenance costs which resulted in rejection of claims. The Management's contention that the Company always owed to IAE for purchase of spares was not acceptable as the outstanding amounts were a result of a normal credit period extended to the Company. Therefore, the argument that there was no loss of interest to the Company was not acceptable.

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

4.3.2 Irregular payment of Productivity Linked Incentive

Irregular payment of Productivity Linked Incentive of Rs.19.35 crore *per annum* to officers of the Company in violation of the scheme approved by the Board of Directors.

The Board of Directors (Board) of Indian Airlines Limited (Company) approved (February 2005) an increase of 25 *per cent* to 30 *per cent* in the variable parameters[1] and 50 *per cent* increase in the fixed parameters[2] of the Productivity Linked Incentive (PLI) Scheme for the Company with effect from January 2005. The estimated financial implication of the revision was Rs.13.21 crore *per annum*.

Audit observed (September 2005) that though the revision of the PLI Scheme was approved by the Board, the Management entered into a dialogue with the Officers Association while entering into an agreement to give effect to the PLI scheme. As a result of the discussions, the parameters for payment of PLI were changed, and an agreement was reached with the Officers Association on 7 April 2005 and orders issued on 15 April 2005 to give effect to the changes. A review by audit of the agreement and orders issued revealed that the Management agreed to change the basic structure of various parameters of the scheme that had been approved by the Board resulting in additional recurring expenditure of Rs.19.35[3] crore *per annum* to the Company. The changes in parameters are discussed below:

(i) ***Flying hours:*** As per the Scheme approved by the Board, the incentive for average fleet utilisation was capped to a maximum of 2,800 hours *per* aircraft *per annum*. As per the change effected by the Management, this cap of 2,800 hours of average fleet utilisation was removed which resulted in extra burden of Rs.13.75 crore for the period January to December 2005. There was increase of 200 *per cent per* month as against 25 to 30 *per cent* approved by the Board.

(ii) ***Attendance Allowance:*** As per the Scheme approved by the Board, attendance allowance was payable at a fixed rate *per* day for the number of days a person attended office in a month. However, with the changes made subsequently, a

[1] ***Includes on time performance, flying hours and number of passengers carried***
[2] ***Includes attendance allowance and experience allowance***
[3] ***Calculated by multiplying the actual increase in PLI paid in the month of February 2005 due to the changes affected by the Management with 12***

fixed monthly allowance was introduced for different categories irrespective of the attendance. The additional burden was estimated at Rs.1.30 crore *per annum*.

(iii) ***Experience Allowance:*** The approved fixed experience allowance was replaced with a slab system of Rs.200 for every completed year of service beyond one year in the cadre along with the fixed allowance. The extra burden was Rs.2.03 crore *per annum*.

(iv) ***Productivity Allowance:*** The special productivity allowance was increased from Rs.4,500 *per* month to Rs.6,750 *per* month to Senior Manager and above though the Board had not approved any increase. The extra burden was Rs.73.17 lakh *per annum.*

(v) ***PLI for number of passengers (Pax) carried:*** The number of passengers carried by Airlines Allied Services Limited. (a wholly owned subsidiary of the Company) were included for payment of PLI for Pax carried resulting in an additional liability of Rs.1.53 crore *per annum*.

It was estimated in Audit that the total additional financial burden on the Company due to these changes in the PLI Scheme subsequently effected by the Management were approximately Rs.43.54 crore for the period January 2005 to March 2007. The Management which was not authorised by the Board to undertake such revisions, did not apprise the Board and seek its approval to the changes in the scheme especially as it had substantial financial implications. Moreover, being a beneficiary of the changes made, it was incumbent on its part to seek the Board's approval.

The Management stated (January 2006) that it was not mandatory to always put up a comprehensive note to the Board. Once Board gives in principle approval with regard to financial impact of the proposal, nitty-gritty of the settlement can only be decided after discussions with the Union. And since Airlines Allied Services Limited was using all the infrastructure of the Company it was decided to include the figures of subsidiary Company for payment of PLI to the staff of the Company.

The reply was not acceptable, as the Management was not authorised to change the structure of the parameters of the PLI Scheme approved by the Board. As the Management was an interested party, as a matter of good governance practice, it should not have signed the agreement without the Board's approval which put an extra burden of Rs.19.35 crore *per annum* on the Company.

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

4.3.3 Avoidable expenditure of Rs.9.35 crore on leased aircrafts due to defective agreements

The Company incurred avoidable expenditure of Rs.9.35 crore on Phoenix upgradation of engines of leased aircrafts due to defective agreements.

Indian Airlines Limited (Company) has a fleet of 48 aircrafts fitted with V2500 engines. M/s. International Aero Engines (IAE), the manufacturer of V2500 engines introduced

the Phoenix Standard upgrade for the engines vide Service Bulletin[1] (SB) 72-0342 in November 1998. The phoenix upgraded engines as per M/s. IAE would give a 25 *per cent* longer time on wing[2] and a 26 *per cent* lower engine maintenance cost. The phoenix standard was not prescribed as a mandatory package either by Director General of Civil Aviation (DGCA) or Federal Aviation Authority (FAA) and its incorporation was totally at the option of the operator. Considering its benefits, the Company opted for the standard and compliance on its own engines started in 1999.

The Company in addition to its own aircrafts also leased four aircrafts fitted with eight engines from ORIX Aviation Systems Limited (ORIX) and seven other engines from other lessors during May 2001 to March 2005. All the leased engines were V2500 engines but of pre-Phoenix Standard since the Company did not specify in the technical requirements of the tender documents that the engines should be Phoenix Standard (SB-72-0342) compliant.

Audit observed (August 2006) that two of the ORIX engines No. VO 222 and VO 233 were removed for shop visit and sent (December 2005/January 2006) to Rolls-Royce for refurbishment. ORIX while agreeing for shop visit asked the Company to incorporate all the SBs. The Company pointed out to ORIX that these engines were pre-Phoenix standard and both these engines had one shop visit earlier during Company operations and it had maintained the same status of the engines by providing pre phoenix vanes[3] from Company's stock. While accepting the facts, ORIX, however, took a stand that as per agreement entered into in 2001, lessee was required to maintain lessor's property in accordance with manufacturer's requirements, even though the agreement was not explicit on the issue. The Company accordingly carried out phoenix upgradation for the leased engines (15) at a cost of Rs.9.35 crore[4]. The Company was unable to recover the cost of the ugradation from the lessors.

Audit observed (August 2006), that though the Company had accepted Pheonix standard for its engines in 1999, it did not specify the same as a requirement for engines leased in 2001. Further, ambiguity in the lease agreement regarding the level of compliance with SBs considering that the engines being leased were pre-pheonix standard compliant resulted in the Company incurring an avoidable expenditure of Rs.9.35 crore on the upgradation of the engines in the leased aircrafts.

The Management stated (May 2007) that Phoenix package was neither a DGCA nor FAA mandatory package-its incorporation was totally at the option of the operator. Due to lack of experience on Phoenix standard performance the same was not included in the tender specification, restricting only to DGCA/FAA mandatory modifications. Based on the experience gained, the subsequent tenders incorporated the Phoenix standard compliance clause.

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[1] ***Service Bulletin are the changes/improvements made by the manufacturer of the engines***

[2] ***Time between two shop visits of an engine***

[3] ***Pre phoenix vanes are replacement of aircraft turbine vanes with improved versions***

[4] ***Calculated at the rate of US$ 1,40,000 per engine. US$ converted at the rate of Rs.43.98 for one engine during 2004-05, at the rate of Rs.44.86 for four engines during 2005-06 and at the rate of Rs.44.42 for ten engines during 2006-07.***

The reply of the Management was not tenable in view of the fact that the Company was aware of the Phoenix standards and had opted for upgradation of its own engines in 1999. Had the Company included the clause for post phoenix standard engines in the tender document floated in 1999 and onward the lessor would have agreed for reimbursement of the cost if they had supplied pre-phoenix standard engines as in the present case. The Company also failed to emphasise on ORIX the fact that the SB (Service Bulletin 72-0342) was introduced in November 1998 and as such should have been incorporated in the shop visits between 1998 and 2001 before the aircraft was given on lease to the Company if compliance with manufacturer's requirement was the criteria.

Thus, the Company's failure to include the clause in the terms and conditions for post-phoenix engines in the tender documents resulted in avoidable expenditure of Rs.9.35 crore on leased aircrafts.

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

4.3.4 Avoidable expenditure of Rs.8.39 crore on premium paid for credit risk insurance cover

Indian Airlines Limited incurred an expenditure of Rs.8.39 crore on premium for credit risk insurance cover without recovering it from the agents.

Indian Airlines Limited appoints sales agents to widen its network for sale of air tickets. Till May 2002, such agents were eligible to retain stock and sell tickets after furnishing bank guarantee (BG) to cover risks associated with credit sales. The amount of BG was periodically reviewed on the basis of performance and quantum of business done by the agents.

In 2002-03, the Company dispensed with the system of taking BG and decided to subscribe to an insurance policy to cover the risk of default by domestic agents except for the newly appointed agents from whom BG of Rs. two lakh for two years was also to be taken. Beginning May 2002, the Company took credit risk insurance policy in respect of all agents for a sum insured of Rs.100 crore at a premium of Rs.1.58 crore, to be renewed annually. The total premium paid on annual renewals from May 2002 to May 2007 was Rs.8.39 crore[*], which was borne by the Company.

It was observed in Audit (August 2006) that though the benefit of dispensing with BG accrued to the agents, the Company did not contemplate recovery of the insurance premium from them as is being done by IATA. The decision to switch over to an insurance policy was conceived as a measure to boost the sale of Company's tickets through agents as the BG system was perceived as a deterrent. It was observed in Audit that despite introduction of credit risk cover at the cost of the Company, there was no

[*] ***Out of the total premium of Rs.8.42 crore paid on annual renewal, the Company had received refund of Rs. three lakh in July 2007 from the insurance company from the ad hoc premium of Rs.1.40 crore paid in May 2007.***

significant rise[1] in the sale of Company's tickets by agents during the period 2002-2007. The insurance cover also did not help in expediting recovery of dues. The claims pending settlement with the insurer were Rs.11.16 crore in March 2007 as compared with Rs. three crore due from agents in March 2002.

The Management stated (December, 2006) that the decision to take insurance cover was to maintain the market share in the industry and the delay in settlement of claims was due to large pendency with the insurance Company.

The reply of the Management does not hold as the increase in the agency sales marginally fluctuated between three *per cent* in 2003-04 to ten *per cent* in 2006-07. Moreover, the Management did not review the insurance cover scheme despite the fact that there was no significant increase in agency sales in the period of cover. Hence, the decision to withdraw the system of obtaining BGs and taking the insurance cover without recovering the cost of premium from agents resulted in an avoidable expenditure of Rs.8.39 crore.

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

4.3.5 Wasteful expenditure on procurement and installation of Remote Air Traffic Control system for A-320 aircrafts

Indian Airlines Limited purchased 36 Remote Air Traffic Control systems during 2003-04 for Rs.2.04 crore which were neither mandatory nor was its usefulness established. Although these systems were installed in 26 aircrafts, the entire expenditure became unfruitful due to Airbus Safety Department's strong recommendation to deactivate the same.

Indian Airlines Limited (Company) decided in March 2002 to install Remote Air Traffic Control (RATC) system on its fleet of A-320 aircrafts for uninterrupted transmission of international emergency code to the ground and placed a purchase order in November 2002 for US$ 0.45 million with M/s. Airbus Industrie for the supply of 36 RATC systems. The formal approval of Modification Committee[2] was obtained in February 2003 after the purchase order had been placed.

M/s. Airbus Industrie recommended (July 2004) discontinuation of RATC due to in-service experience of nuisance warning by operators. By that time, Indian Airlines Limited had also six times experienced inadvertent operation of RATC system. In view of the M/s. Airbus Industrie recommendation, the Company deferred installation of RATC systems though the system had already been installed on 26 aircrafts. The Company tried to return unused modification kits to M/s. Airbus Industrie but same were not accepted by them (June 2005). Audit observed (January 2007) that this modification was neither essential as per the Airbus Industrie Service Bulletin nor was it directed by Director General of Civil Aviation (DGCA).

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[1] ***The percentage of domestic agency sale to total passenger sale was about 58 per cent and 53 per cent during the years 2001-02 and 2002-03 respectively and was about 56 per cent, 62 per cent, 57 per cent and 64 per cent during the years 2003-04, 2004-05, 2005-06 and 2006-07 respectively.***

[2] ***The Modification Committee approves the proposed modifications to the aircraft based on the necessity of the same.***

The Management stated (May 2007) that the purchase order of RATC system was placed in anticipation of this modification likely to become mandatory in immediate future in view of the Notice of Proposed Rule Making (NPRM) issued by Federal Aviation Administration (FAA). It further stated that necessary instructions had been issued in the month of October 2006 to carry out the installation of RATC system on all 36 aircrafts as originally planned.

The reply of the Management was not tenable as the FAA had issued the NPRM in January 2003 whereas the Company had placed the order in November 2002. The Airbus Safety Department strongly recommended in May 2006 deactivation of the RATC systems installed on the aircrafts. Further the comments received by FAA on the NPRM between January and April 2003 also confirmed that most of the operators[1] felt that installing continuous ATC transponder would not increase the safety or security and instead the unintentional hijack code selection would put passengers at greater risk. Though no modification had been carried out in the remaining ten aircrafts till August 2007, the decision to install the remaining systems and continuing with the existing systems needs to be reviewed.

Thus, the hasty decision to order for the RATC systems for all the 36 aircrafts in one go when there was no mandatory requirement to the effect and the utility of the system was still to be established resulted in a wasteful expenditure of Rs.2.04 crore.

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

4.3.6 Avoidable expenditure due to delay in finalisation of contract

The Company incurred an extra expenditure of Rs.70.68 lakh due to delay in award of contract for overhaul of landing gears.

Indian Airlines Limited (Company) entered into a contract with M/s. Messier Services Asia Private Limited (Messier Services) in June 2002 for overhaul of landing gear assemblies of aircraft. The charges for main landing gear (MLG) and nose landing gear (NLG) were fixed at Rs.33.26 lakh[2] and Rs.26.03 lakh, respectively. The contract was valid upto December 2004. The Company invited bids for fresh contract in June 2005 and the commercial offers of the technically qualified parties were opened in August 2005. The rates quoted by Messier Services at Rs.32.75 lakh were the lowest for MLG overhaul and rates quoted by M/s. EADs Sogerma (Sogerma) at Rs.19.17 lakh were lowest for NLG overhaul. While analysing Sogerma's bid, the sub-committee evaluating the bids, assumed that the cost of items indicated as 'on condition' were included in the commercial bid. The tender evaluation committee proposed in November 2005 to award the work to Messier Services and Sogerma for MLG and NLG, respectively as both the parties had in the past carried out similar work for the Company. However, the contract for overhaul of the MLG was awarded to Messier Services in October 2006 and the

[1] ***126 out of 146 comments on NPRM received***

[2] ***All translations from foreign currency to domestic currency had been done at the prevailing exchange rates.***

contract for NLG was awarded to the Messier Services in June 2007 valid for a period of two and three years respectively.

Audit observed (February 2007) that during the intervening period from August 2005 to August 2006, the Company sent eight MLG and three NLG to Messier Services for overhaul at the previous contract rates which were higher than the new rates quoted by the same party against the fresh bids {Previous rates being Rs.39.38 lakh and Rs.30.82 lakh as against the quoted rates of Rs.33.83 lakh and Rs.28.42 lakh for the overhaul of MLG and NLG, respectively}. The Company also paid additional escalation at the rate of 2.5 *per cent* on previous rates for overhaul of landing gears sent after July 2006. This resulted in extra payment of Rs.57.11 lakh[1], as the fresh contract was not finalised in time.

While analysing the reasons for delay, Audit noticed that though the tender evaluation committee recommended Sogerma for award of contract for overhaul of NLG, Sogerma had indicated overhaul of hydraulic components of NLG as "On Condition" though these were a part of the original tender requirement. This variation was not noticed at the technical evaluation stage despite it being given in the variance statement submitted along with the technical bid. It was first noticed by the tender evaluation committee before making its recommendation in November 2005. However, it neither considered its financial impact on the bid nor obtained any specific clarification from Sogerma in this regard. It was only at the stage of finalisation of the contract, that a clarification in this regard was sought (April 2006) from Sogerma which led to increase in their bid price (June 2006) by Rs.7.49 lakh for overhaul of hydraulic components of NLG. The tender evaluation committee did not accept the revised offer of Sogerma and decided (August 2006) to re-tender the contract for overhaul of NLG. In the meantime, the undisputed offer of Messiers Services for overhaul of MLG remained unfinalised and the contract was finally awarded in January 2006 on the basis of the original bid *i.e.,* after a delay of approximately 12 months[2]. On the basis of fresh bids for NLG overhaul, the Company awarded the contract (June 2007) to the lowest bidder Messier Services at a price of Rs.33.50 lakh against their earlier quote (June 2005) of Rs.26.72 lakh.

Thus, the Company by failing to carefully examine the variance statement of the bidder at the initial stages of technical evaluation of Sogerma for overhaul of NLG and delay in finalising the technically and commercially acceptable bid of Messier Services for overhaul of MLG incurred an extra expenditure of Rs.57.11 lakh during the period (August 2005 to August 2006). Further the Company will continue to incur Rs.6.79 lakh extra for overhaul of each NLG to be sent during the validity of the contract. The Company has already incurred an additional expenditure of Rs.13.57 lakh[3] on the overhaul of two NLG sent during December 2006 to Messier Services at the rate higher than their previous quote that was received against bid invited in June 2005.

While the Management chose not to reply on the lapses in examination of the bids, it stated (June 2007) that Messier Services was asked to apply the newly quoted rates for overhaul of landing gears but they did not agree as the contract was not finalised. In

[1] ***Being the difference between actual amount paid and amount quoted for fresh tender***
[2] ***From November 2005 to January 2006***
[3] ***Being the difference between the amount quoted in June 2005 and the amount actually paid***

October 2007, the Management stated that Sogerma was technically qualified and admitted that any clarification and on technical offer should have been obtained at the time of evaluation of technical bids.

Thus, due to the delay in finalising the contract for MLG with Messier Services and not rejecting the incomplete bid for overhaul of NLG, the Company incurred extra expenditure of Rs.70.68 lakh.

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