सत्यमेव जयते

Report of the Comptroller and Auditor General of India

भारतीय लेखा एवं लेखा परीक्षा विभाग
INDIAN AUDIT AND ACCOUNTS DEPARTMENT
सत्यमेव जयते

Union Government (Commercial)
No. 21 of 2015
(Compliance Audit Observations)

Volume II

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Comptroller and Auditor General of India

for the year ended March 2014

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CONTENTS

PREFACE

1. The accounts of Government Companies set up under the provisions of the Companies Act (including Companies deemed to be Government Companies as per the provisions of the Companies Act) are audited by the Comptroller and Auditor General of India (CAG) under the provisions of Section 619 of the Companies Act, 1956. The accounts certified by the Statutory Auditors (Chartered Accountants) appointed by the CAG under the Companies Act are subject to the supplementary audit by CAG whose comments supplement the reports of the Statutory Auditors. In addition, these companies are also subject to test audit by CAG.

2. The statutes governing some Corporations and Authorities require their accounts to be audited by CAG. In respect of five such Corporations viz. Airport Authority of India, National Highways Authority of India, Inland Waterways Authority of India, Food Corporation of India and Damodar Valley Corporation, the relevant statutes designate CAG as their sole auditor. In respect of one Corporation viz. Central Warehousing Corporation, CAG has the right to conduct supplementary and test audit after audit has been conducted by the Chartered Accountants appointed under the statute governing the Corporation.

3. Reports in relation to the accounts of a Government Company or Corporation are submitted to the Government by CAG under the provisions of Section 19-A of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, as amended in 1984.

4. The Audit Report for the year ended 31 March 2014 has been prepared in two volumes. This is Volume II of the Audit Report and contains 37 individual audit observations relating to 18 PSUs under the control of seven Ministries/Departments. Volume I contains 31 individual audit observations pertaining to 28 PSUs under the control of seven Ministries/Departments. Instances mentioned in this Report are among those which came to notice in the course of audit during 2013-14 as well as those which came to notice in earlier years. Results of audit of transactions subsequent to March 2014 in a few cases have also been mentioned.

5. All references to 'Companies/Corporations or PSUs' in this Report may be construed to refer to 'Central Government Companies/Corporations' unless the context suggests otherwise.

6. The audit has been conducted in conformity with the Auditing Standards issued by the Comptroller and Auditor General of India.

EXECUTIVE SUMMARY

I Introduction

1. This Report includes important audit findings noticed as a result of test check of accounts of records of Central Government Companies and Corporations conducted by the officers of the Comptroller and Auditor General of India under Section 619(3) of the Companies Act, 1956 or the statutes governing the particular Corporations.

2. The Report contains 37 individual observations relating to 18 PSUs under 7 Ministries/Departments. The draft observations were forwarded to the Secretaries of the concerned Ministries/Departments under whose administrative control the PSUs are working to give them an opportunity to furnish their replies/comments in each case within a period of six weeks. Replies to 27 observations were not received even as this Report was being finalised. Earlier, the draft observations were sent to the Managements of the PSUs concerned, whose replies have been suitable incorporated in the report.

3. The paragraphs included in this Report relate to the PSUs under the administrative control of the following Ministries/Departments of the Government of India:

Ministry/Department (Number of PSUs involved	Number of paragraphs	Number of paragraphs in respect of which Ministry/Department's reply was awaited
1. Heavy Industries and Public Enterprises (BHEL, CCIL, HPCL and SSL)	8	6
2. Mines (HCL)	2	2
3. Petroleum and Natural Gas (IOCL, OIL, ONGC and OPAL)	13	11
4. Power (DVC, PGCIL and REC)	5	2
5. Steel (SAIL)	6	3
6. Textiles (NTC)	1	1
7. Water Resources, River Development and Ganga Rejuvenation (NPCCL)	1	1

8. Irregularities in payment of entitlements by CPSEs (BPCL, GAIL and EIL)	1	1
Total	**37**	**27**

4. Total financial implication of audit observations is ₹ 2,854.78 crore.

5. Individual Audit observations in this Report are broadly of the following nature:

- ❖ Non-compliance with rules, directives, procedure, terms and conditions of the contract etc. involving ₹ 1,150.76 crore in 12 paras.
- ❖ Non safeguarding of financial interest of organisations involving ₹ 653.47 crore in 13 paras.
- ❖ Defective/deficient planning involving ₹ 997.29 crore in seven paras.
- ❖ Inadequate/deficient monitoring involving ₹ 5.82 crore in one para.
- ❖ Non-realisation/partial realisation of objectives involving ₹ 47.44 crore in four paras.

6. The Report also contains a para relating to recoveries of ₹ 27.59 crore made by 4 PSUs and another para relating to corrections/rectifications carried out by three PSUs at the instance of Audit.

II Highlights of some significant paras included in the Report are given below:

Water Injection platform (WIN) commissioned in 1984 is the main water injection hub in Mumbai High North field of Oil and Natural Gas Corporation Limited (ONGC). Non-synchronization of WIN revamping project with repair/ replacement of its associated pipelines and delay in overhauling of Main Injection Pumps led to non-achievement of the designed water injection capacity even after incurring an expenditure of ₹ 726.50 crore.

(Para 3.8)

ONGC (Company) awarded a contract in November 2004 for Engineering and Construction works as part of development of a deepwater and a shallow water oil and gas bearing field, and subsequently (June 2007) terminated the contract due to stalling (June 2006) of work by the contractor and initiated action to encash performance bank guarantee (PBG) furnished by the contractor. The contractor took up (June 2007) the matter of termination of contract and invoking of PBG for arbitration. The Company also filed a petition in the High Court of Mumbai for obtaining, *inter alia*, the custody of equipment and material that had remained with the contractor. The Company entered into a Settlement Agreement with the defaulting contractor without conducting due diligence whereby it obtained a reduction of only USD 0.7 million while it ended up paying a settlement sum of USD 32 million (₹ 149.37 crore) to the contractor through 'out of court' resolution of disputes, besides incurring additional expenditure of USD 66.34 million (₹ 342.34 crore) in implementing the agreement in deviation of the approval accorded by its Board in October 2008. The expenditure (₹ 342. 34 crore) was irregular as it did not have approval of the Board and was not in the financial interests of the Company. In addition, the Company incurred an avoidable expenditure of USD 13.7 million (₹ 63.79 crore) on payment of rental for tools which was included within the amount paid for the work completed by the contractor under the already terminated contract. The project for development of the oil and gas fields remained incomplete (January 2015) as against the revised target date of April 2010 while projected revenues of ₹ 1,500 crore per annum remained unrealised.

(Para 3.6)

National Textiles Corporation Limited entered into settlement agreement for sharing of land with the erstwhile owner ignoring the fact that it was prime freehold land, without ascertaining commercial viability, which resulted in a loss of ₹ 205.01 crore to the Company.

(Para 6.1)

ONGC Petro additions Limited (Company) entered into defective contracts with three contractors and extended interest free advances during March 2009 to November 2011 and linked the recovery of these advances to progress of the related project in violation of CVC guidelines instead of effecting recovery in a time-based manner and, thus, lost interest of ₹ 49.63 crore from August 2012 to October 2014. Besides this, the Company was yet to recover advances of ₹ 144.20 crore from the contractors as on October 2014 sustaining further loss of interest.

(Para 3.13)

Steel Authority of India Limited (SAIL) had 23 Joint Venture Companies (JVCs) as on 31 March 2014 with total investment of ₹ 778.82 crore. Only seven were fully functional of which only three were generating profits. Four JVCs were being wound up. SAIL had formed two JVCs, one at Bhilai and other at Bokaro with Jaypee Cement Limited (JCL) which used slag, a by-product produced in SAIL's steel plant for making cement. It was noted that SAIL under an agreement was supplying slag to the JV at prices much below the market price, as a result of which SAIL lost ₹ 156.58 crore up to 2013-14.

(Para 5.1)

Rural Electrification Corporation Limited suffered loss of ₹ 153.36 crore upto December 2014 as it did not approach Ministry of Power to reimburse the differential interest on soft loans it had extended under Rajiv Gandhi Grameen Vidutikaran Yojana (RGGVY).

(Para 4.5)

Investment amounting to ₹ 6.38 crore made by Damodar Valley Corporation (Corporation) for implementation of modernised metering system remained unproductive and ineffective resulting in non-fulfilment of objectives. The Corporation did not adhere to the time frame of the tariff petition as prescribed by CERC which was one of the reasons for the accumulation of huge outstanding dues from consumers. The Corporation did not collect disconnection and reconnection charges (₹ 4.33 crore) from its consumers allowed under Electricity Act, 2003 and also did not install meters at the premises of most of LT consumers which prevented the Corporation from ascertaining the actual consumption of electricity and resulted in non recovery of ₹ 142.72 crore towards electricity charges during 2010-11 to 2013-14.

(Para 4.1)

Oil India Limited failed to create facilities in time to contain basic sediments and water content in crude oil supplies within the prescribed limit. This resulted in loss of revenue of ₹ 105.55 crore during 2008-09 to 2013-14.

(Para 3.5)

There are 33 Coke Oven Batteries (COBs) in the five integrated steel plants operated by SAIL. COBs convert coal into coke which is the primary fuel used in the Blast furnaces for production of hot metal.

It was noticed that on account of delays in the repairs and maintenance of the COBs, their performance was far below the norms set by SAIL. There was a shortfall in production of coke by 3.320 MT during the period 2009-14. Similarly, there was shortfall in availability of Coke oven gas, which is generated as a by-product during carbonization of coal in COBs, resulting in production loss of 2.430 MT of saleable steel and additional procurement of furnace oil at a cost of ₹ 202.85 crore during 2009-13. It was also noticed that even where repair and renovation had been carried out, the performance of the COBs was below the guaranteed performance parameters.

(Para 5.2)

Follow-up IT Audit of implementation of Material Management module of ONGC Limited revealed the following:-

- There were inadequacies of input controls, validation checks and internal control procedures to ensure accurate and timely capture of data. This resulted in lack of data integrity and incorrect MIS.
- Deficiencies in the internal control mechanism and lack of user awareness resulted in stock issues, receipts and consumption not getting captured in a timely manner leading to incorrect material accounting.
- There were deficient input controls, validation checks and internal control procedures to ensure accurate and timely capture of data and compliance of business processes related with physical verification of assets. This resulted in incomplete physical verification of assets, stores and spares, incorrect MIS and lack of data integrity.
- Material Requirement Planning remained subjective as it was being carried out manually even after implementation of ERP system.

(Para 3.7)

Hindustan Copper Limited implemented Oracle E-Business Suite R12 ERP system after investing ₹ 13.22 crore towards cost of software and hardware. It was, however, noted that the IT System did not have documented IT policies, and logical access control. The quality of Master Data was also found to be poor. We noted deficiency in the system on application of depreciation of fixed assets requiring manual intervention in financial records and delay in implementation of payroll module.

(Para 2.1)

Leave rules/policy for encashment of sick leave or of earned leave with HPL exceeding 300 days on superannuation, were in violation of the DPE guidelines and resulted in irregular payment of ₹ 157.91 crore during the period April 2006 to March 2014 in respect of four CPSEs. Further, two CPSEs (IOCL and GAIL) made irregular contributions of ₹ 12.15 crore on account of provident fund in respect of leave encashment to employees. Further, GAIL did not adjust the employer's share of contribution amounting to ₹ 14.94 crore on leave encashment paid prior to March 2008.

(Para 8.1)

CHAPTER I: MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

1.1 Non-regularisation of land and delay in execution of lease deed

Abnormal delay in taking decision on retention of 1.22 acres of land held in excess of allotted area in Noida has the potential of placing an avoidable burden of ₹ 45.44 crore on BHEL. Lease deed for township also remains to be executed depriving BHEL of the otherwise rightful title to the land.

New Okhla Industrial Development Authority (NOIDA) allotted (April 1981) 15 acres of land to Bharat Heavy Electricals Limited (BHEL) in Sector-17, Noida at a premium of ₹ 1.06 crore (@ ₹ 175/sq. Mtr.). While giving possession of land, NOIDA also handed over possession of adjoining 15 acres land to BHEL which was to be used by NOIDA for shopping complex/school/park/road, *etc*. Of this adjoining 15 acres of land, NOIDA allotted (July 1987) 1.5 acres of land for ₹ 4.51 lakh to BHEL for a school, for which lease deed was executed in May 1989.

For protection of land, BHEL constructed (1989-90) a boundary wall covering land allotted to it as well as the adjoining land belonging to NOIDA. However, while constructing this boundary wall, BHEL extended its construction beyond 30 acres of land under its possession. NOIDA asked (November 1992) BHEL to demolish the boundary wall. BHEL informed (November 1992) NOIDA that in view of security issues, the boundary wall could not be relocated. During a joint inspection (January 2000) of land with BHEL, NOIDA observed that as against 30 acres land handed over by NOIDA, an area measuring 31.22 acres was in possession of BHEL. Accordingly, NOIDA issued (February 2001) a demand for ₹3.45 crore towards excess land of 1.22 acres held by BHEL. However, BHEL refused (February 2001) to pay cost of this land to NOIDA on the ground that the excess land was only meant for common/social welfare/open area. NOIDA made it clear (October 2002) that BHEL should either remove the boundary wall or pay the dues for extra 1.22 acres of land at the then prevailing rates. However, BHEL was yet to finally decide on the issue and lease deed of plot of 15 acres allotted to BHEL by NOIDA also remained unexecuted till date (January 2015).

Audit examination revealed that due to increase in circle rates over time, BHEL now faces a potential liability of an estimated amount of ₹ 48.89 crore (as per NOIDA circle rate of August 2014 applicable to sector 17 Noida where the plot is located) instead of ₹ 3.45 crore demanded earlier in February 2001 by NOIDA in respect of excess land of 1.22 acres held by BHEL.

BHEL stated (February 2013) that despite repeated pursuance and follow up with NOIDA since August 1982, lease deed had not been executed and that they had expressed willingness to pay charges for excess 1.22 acres land under their possession and had requested (December 2012) NOIDA to intimate the lease amount and other dues. BHEL added (December 2014), that a committee formed (February 2013) for execution of lease deed and negotiate/discuss the cost of extra land (1.22 acres) and other dues, had however, opined (April 2014) that 1.22 acres of land in the form of common area (road and roadsides) belonged to NOIDA and paying for excess land of 1.22 acres was uncalled for as the land had not been utilised by BHEL for residential purposes.

Replies indicated that even after lapse of considerable period, BHEL was still indecisive on the issue of either making payment towards the cost of extra land of 1.22 acres or surrendering the same to NOIDA. Further, it was in the interest of BHEL to take up the long pending issue at an appropriately senior level and possibly through the intervention of the Ministry, which was not done. As a result, BHEL now faces an additional potential liability of ₹ 45.44 crore (increase in demand of ₹ 3.45 crore in October 2002 to an estimated value of ₹ 48.89 crore based on NOIDA circle rate applicable from August 2014) while lease deed for the plot of 15 acres of land allotted to BHEL also remained unexecuted till date (January 2015), depriving BHEL of the otherwise rightful title to the land.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

1.2 Avoidable expenditure towards payment of demurrages and detention charges

Heavy Power Equipment Plant (HPEP), Hyderabad incurred avoidable expenditure of ₹ 16.27 crore towards payment of demurrage & detention charges due to abnormal delay in clearing imported material from Mumbai Port.

As per Custom Manual 2013, the importer of the goods is required to complete the customs clearance formalities after arrival of goods in terms of details mentioned in the Import General Manifest (IGM) at the customs station by filing bill of entry for home consumption or for warehousing in prescribed forms.

As per section 48 of Major Port Trusts Act 1963, after the goods are unloaded at port, these have to be cleared by the importer within stipulated time or else demurrage charges levied by port authorities have to be incurred. In terms of powers conferred by section 48 of Major Port Trust Act 1963, Tariff Authority for Major Ports vide order no.77 dated 31 May 2000 notified that in case of Mumbai Port Trust, the stipulated time allowed for clearance of goods was three working days and on expiry of these three working days, demurrages levied by port authorities have to be paid by the importer. In addition, detention charges for containers are to be paid to the shipping agents beyond the contractual delivery period.

Regional Operations Division (ROD), Mumbai, a unit of BHEL is rendering support functions to the sister units such as arranging clearing agents, arranging freight forwarder for delivery of goods and payments thereof for such services. Later, ROD passes the debit note to concerned unit for the expenditure incurred for all imported purchase orders. HPEP co-ordinates with ROD, Mumbai in respect of filing of IGM, documents required for bill of entry[♠] and freight arrangements to the unit or site. HPEP also forwards the documents for clearance of customs duties and for claiming applicable duty concessions. HPEP has to ensure the availability of necessary documents with ROD before the consignments are landed at the Port.

Examination in audit revealed that there were abnormal delays over and above the three working days ranging from 19 days to 520 days in clearing 144 imported consignments ordered by HPEP received at Mumbai Port during 2010-14 due to following reasons:

- Delay in issue of Mode of Assessment (MOA) of customs duty to ROD, Mumbai in respect of 63 consignments;
- Late submission of necessary import documents in respect 15 consignments;
- Customs clarifications/delay in submission of revised invoices & licenses in respect of 10 consignments;
- Goods Bonded in Customs warehouse/High sea sale/BE amendments, late receipt of import license in respect of 10 consignments; and
- No reasons for delay were recorded in respect of 46 consignments.

As a result, ROD, Mumbai could not clear the consignments within the stipulated time of three days, which resulted in payment of demurrage and detention charges of ₹ 16.27 crore by HPEP during the period 2010-14.

HPEP in its reply while not contesting the facts and figures, stated (February 2014) that demurrage and detention charges were incurred due to non-availability of MOA, non-availability of documents and licenses at the time of receipt of material, lack of transport facility etc. Further, BHEL replied (October 2014) that a Cross Functional Team (CFT) comprising members from concerned agencies has been formed to look into the issues and to suggest improvements in the system and for minimizing demurrage and detention charges at the Unit. Further, it was replied that only 4 cases have been cleared beyond 350 days (demurrage/detention incurred was ₹ 65 Lakh) and one case beyond 520 days (demurrage ₹ 3.25 lakh). In addition, it also stated that there was:-

- Delay on the part of Custom Authorities & Director General of Foreign Trade (DGFT) who raised queries on technical write up, original bank attested invoices which took more time; Custom Authorities took time to scrutinize the documents for Project Import Registration viz., items list for description of items imported; Individual POs registrations on account of staggered requirement of material; change in custom clearance procedures during 2010;
- Delay on the part of customers in providing essentiality certificate;

[♠] ***Signed Invoice Copy, Packing List, Bill of Lading/Airway Bill, Import License, Letter of Credit, Certificate of Origin, Insurance documents, Technical write up of machinery, spares etc.***

- Amendments to originally issued project certificate in the case of advance license due to change in Foreign Trade Policy (FTP);
- Cargo pertaining to same license arrives at same time but at different port locations (JNPT, Mumbai Port, Mumbai/Delhi airport) eventually leading to custom clearance activities to be done in series.

Reply needs to be viewed in the light of the following:-

- It was a known fact that the imported consignments had to be cleared within stipulated time i.e. three working days and it was incumbent upon the Unit (HPEP) to devise an appropriate operating procedure to avoid delays. This was attempted only in January 2014.
- The other reasons as explained above are procedural lapses in submission of documents for clearing the imported material, which could have been avoided by adopting properly devised operational procedure.
- Though there was change in the procedures in FTP as stated by the company, the stipulated time allowed for clearing the goods from port remained three working days. Therefore, it was the responsibility of the management to get the goods cleared within three working days.

Thus, delays attributable to HPEP in arranging necessary documents before the goods were unloaded at Mumbai Port, resulted in avoidable expenditure towards demurrage and detention charges of ₹ 16.27 crore during the period 2010-14.

The matter was reported to the Ministry in November 2014; their reply was awaited (March 2015).

1.3 Unfruitful expenditure on procurement of rail wagon

Deficient planning and subsequent non-utilization of 28-axle special rail wagon by BHEL resulted in unfruitful expenditure of ₹ 12.04 crore on procurement of the wagon.

Bharat Heavy Electricals Limited (BHEL) approved (June 2009) capacity augmentation programme for its thermal generating set manufacturing facilities which included procurement of 28-axle special rail wagon (Wagon) & carrier loading beam for transportation of 600/660 MW Turbo-generator (TG) Stators for its Heavy Electrical Equipment Plant (HEEP), Haridwar. This wagon was envisaged to provide safer and economical means of transportation as compared to road as it did not require activities relating to strengthening of roads, building of bypasses, re-enforcement of bridges, etc., besides reduced risks of curves, mishaps/accidents on narrow roads and in monsoon season.

Meanwhile, HEEP Haridwar also planned to use the above rail wagon to supply an existing order of 600 MW TG Stator to Tamil Nadu Electricity Board (TNEB) scheduled to be delivered by June 2010. Accordingly, HEEP Haridwar floated (May 2009) a single tender enquiry on its sister unit BHEL at Jhansi for supply of the wagon and the latter submitted its offer (June 2009) quoting delivery schedule of 24 months. Keeping in view scheduled delivery of 600 MW TG Stator to TNEB, HEEP Haridwar requested (December 2009) BHEL Jhansi to squeeze the delivery period. The latter agreed (February 2010) to tentatively reduce the delivery period from 24 months to 18 months. A Purchase Order (PO) valuing ₹ 7.95 crore was issued (March 2010) to BHEL Jhansi with scheduled delivery of the wagon by 25 September 2011.

HEEP Haridwar also placed (February 2010) a PO on M/s TAKRAF GMBH, Germany for procuring the carrier loading beam, to be mounted on this wagon, at a price of Euro 383871.38 (landed cost of ₹ 2.83 crore). Carrier loading beam was received in HEEP, Haridwar in March 2012, whereas, the wagon was received only in April 2012 after a delay of 7 months from the delivery schedule of September 2011. The wagon costing ₹ 12.04 crore[•] was finally commissioned in November 2012 after inspection by Research Design and Standards Organisation, Lucknow, of Indian Railways.

As the process of procurement of wagon was delayed, HEEP Haridwar had to supply the 600 MW TG Stator to TNEB by road in June 2011. Even after commissioning of wagon in November 2012, the wagon could not be used so far (January 2015) as the wagon had been specially designed and can only be used at the sites with requisite facilities, such as Railway sidings, RCC Platform on both sides of track, facility of unloading of consignment and Over Dimensional Clearance (ODC) certificate from Indian Railways. ODC is possible only for few sites due to height/width constraints, limitation of bridges *en-route*, constraints in turning on track due to length of loaded wagon, limited maximum speed of loaded wagon and congestion of passenger trains traffic/goods train traffic. As such, not only the TG Stator to TNEB had to be sent by road, but also HEEP Haridwar had to dispatch 15 consignments of other TG Stators of 600 MW and above by road during December 2012 to March 2014 incurring an expenditure of ₹17.36 crore as freight charges. Thus, due to delay in procurement and defective planning for the operational modalities and necessary clearances from Indian Railways, the wagon and associated carrier loading beam procured at a cost of ₹ 12.04 crore could not be fruitfully put to use even after more than five years of the initial decision to procure the same.

BHEL (November 2014/January 2015) and Ministry of Heavy Industries and Public Enterprises (March 2015) stated that:

- Vigorous efforts were being made for obtaining ODC and utlisation of wagon for pending and future orders for TG stators of capacity 600 MW and above. Presently, TG stator for Prayagraj project had been loaded on the wagon and was being despatched, and
- Transportation of TG Stators by rail in own wagon also involves substantial cost on account of freight charges payable to Railways, trans-shipment (loading/unloading), construction of roads from railhead to the site*, etc.*

The reply is to be viewed against the facts that:

- The wagon planned to provide a safer and economical means of transportation had not been put to use till January 2015 even after lapse of more than two years of its

[•] ***After considering the financial impact of excise duty, freight, incidental and consultancy charges in respect of Wagon and sea/air freight and incidental charges in respect of carrier loading beam.***

commissioning and all the 15 consignments sent after its commissioning had to be despatched only by road. Due to restrictions on ODC and limitations on availability of requisite infrastructure at railway sidings in the country, it may be a challenging task for BHEL to put the wagon to a fruitful use in future.

- On request by Audit (January 2015) BHEL did not provide analysis of possible cost saving of transportation of TG Stators through own rail wagon *vis-a-vis* transportation through road, so as to assess net additional expenditure on consignments despatched through road.

Thus, defective planning for procurement of wagon had rendered the investment of ₹ 12.04 crore unfruitful, besides depriving BHEL of the facility for a safer and economical transport.

1.4 Blocking of funds towards payment of Sales Tax

Failure on the part of Heavy Power Equipment Plant (HPEP), Hyderabad in prompt collection of Form C for obtaining concession of tax on turnover resulted in blocking of funds amounting to ₹ 9.67 crore towards payment of Sales Tax for period ranging from 8 months to 5 years.

Under the Central Sales Tax (CST) Act 1956 and CST Registration and Turnover (R&T) Rules 1957, registered dealers of the State are eligible to certain concessions and exemptions of tax on inter-State transactions against submission of prescribed declarations in Form C. The assessees are required to deposit sales tax to Sales Tax Authorities (Authorities) on or before due dates. Sales tax return in the prescribed proforma needs to be prepared and submitted every month to the Authorities. Sales tax shall be charged at concessional rate on inter-state sales against Form C to be issued by the registered dealer. Section 8 (4) (a) of CST Act 1956 provides that concessional rate of tax is applicable only if the assessee submits a declaration in prescribed Form C.

As the sales tax applicable for the despatched goods in Andhra Pradesh was 14.5 *per cent,* non-submission of Form C to the Authorities, attracted additional sales tax of 12.5 *per cent* over and above two *per cent* CST already levied. Since, HPEP was paying CST @ two *per cent* (i.e @ concessional rate[1]) for inter-state sales, it had to submit proof to the Authorities that the customer would be eligible to get these goods at concessional rate. Otherwise, HPEP has to pay balance sale tax payable plus penalty as applicable. Hence, HPEP was required to collect Form C promptly from its customers and follow up cases where Form C was not received.

Examination in audit revealed that HPEP incurred an expenditure of ₹ 9.67 crore (being the differential rate of sales tax against the demand notice of ₹ 32.99 crore) for the assessment years (completed) for 2006-07 to 2010-11. A test check of records revealed that HPEP did not collect and furnish Form C to the Authorities for the concessional turnover of ₹ 340 crore (₹ 214 crore in 2009-10 and ₹ 126 crore in 2010-11) for the assessment years (completed) 2009-10 and 2010-11. However, HPEP collected Form C for the turnover of ₹ 214 crore (₹ 158 crore for the year 2009-10 and ₹ 56 crore for the

[1] ***Provided the buying dealer confirms such transactions by furnishing a declaration in pre-printed form that he has received such goods giving all details such as invoice, commodity purpose etc.***

year 2010-11) from the customers only after completion of assessment proceedings. It did not collect Form C for the balance turnover of ₹ 126 crore (₹ 56 crore for 2009-10 and ₹ 70 crore for 2010-11). Out of this balance turnover of ₹ 126 crore, receipt of Form C of ₹ 108 crore was pending from two major customers i.e. (₹ 74 crore from DVC Koderma and ₹ 34 crore from PPCL).

BHEL in its reply stated (February 2015) that (i) review of pending Form C is being done on regular basis and all efforts are being made to collect pending Form C; (ii) The appeals for the respective years are live and BHEL is eligible for refund of the pre-deposited amount. Hence, the amount of ₹ 9.67 crore could not be treated as additional expenditure until the case is disposed by the Final Appellate Authority, (iii) With regard to DVC Koderma and PPCL, the unit has been constantly in touch with the customers for collection of Form C.

Reply needs to be viewed in the light of the following:

- While HPEP has paid the additional demand of ₹ 9.67 crore under protest pending appeals before the Appellate Authority, the fact remains that Forms C were to be collected from the customer before the completion of sale tax assessment proceedings.
- HPEP has put itself in an avoidable situation, now, when it is entirely dependent on its customers to furnish the required documents, which is not a good practice.

Thus, the failure of HPEP in prompt collection of Form C from its customers resulted in blocking of funds amounting to ₹ 9.67[1] crore towards payment of Sales tax for a period ranging from 8 months to 5 years.

The matter was reported to the Ministry in March 2015; their reply was awaited (March 2015).

1.5 Loss due to withdrawal of price variation without approval of competent authority

Unsolicited withdrawal of tender condition by BHEL for exchange rate variation on imported materials without obtaining approval of competent authority resulted in loss of ₹ 7.38 crore

Bharat Heavy Electricals Limited secured (October 2010) two orders from Nuclear Power Corporation of India Limited (NPCIL) for manufacture, supply, delivery and guarantee of four sets of Reactor Header Assembly sets, two each for Kakrapar Atomic Power Project (KAPP) and Rajasthan Atomic Power Project (RAPP) through its Heavy Pressure Boiler Plant (the Unit) at Trichy at a total cost of ₹99.30 crore. The supply was to be completed by April and October 2012, which got extended to October and December 2014 for KAPP and RAPP respectively. As per clause 5.4.3 of general conditions of contract (GCC) incorporated in the tender document, price adjustment would be allowed on

[1] ***₹ 1.68 crore-2006-07; ₹ 1.95 crore-2007-08; ₹ 3.23 crore-2008-09; ₹ 1.39 crore-2009-10; ₹ 1.42 crore-2010-11.***

imported material component[♣] up to a ceiling of +/− 20 *per cent* of ex-works price in accordance with formula specified in clause 5.5 of GCC.

The Unit, while bidding for the orders, reckoned tender condition regarding price variation (PV) and the total ex-work price was estimated (March 2010) at ₹ 98.73 crore which included an import component of ₹ 61.81 crore considering exchange rate (February 2010) of ₹ 62 per Euro. During technical evaluation, NPCIL sought (April 2010) unconditional acceptance to clause 5.4 & 5.5 of GCC, but the Manager, Commercial of the Unit confirmed (May 2010) to NPCIL that the material portion was firm and thereby withdrew the protection it had against exchange rate variation on imported materials. Audit observed the Unit communicated this decision without obtaining approval of competent authority i.e. Executive Director (ED). Since the price estimates were approved by ED of the Unit, any changes to it should have also been got approved from the ED. Meanwhile, the Unit imported material valuing Euro 97.98 lakh (₹ 72.67 crore) during the period from May 2012 to June 2013 incurring an additional expenditure of ₹11.92 crore due to exchange rate variation that ranged between ₹ 69.12 and ₹ 78.38 per Euro as against ₹62 per Euro reckoned at the time of bid submission. As a result, the Unit incurred loss of ₹ 7.38 crore on account of withdrawal of PV on exchange rate variation on imported materials.

The Unit stated (October 2014) that at the time of submission of offer, exchange rates were on downward trend and considering the same, exchange rate variation was not considered for PV clause. During the course of technical evaluation, Euro was less than ₹ 58 due to market instability as against ₹ 62 per Euro at which the bid was submitted. However, the fact remains that exchange rate variation protection was available in the tender conditions and without any insistence from NPCIL, the Manager, Commercial of the Unit withdrew it purely based on a trend of three months in a volatile foreign exchange market environment and hoped that it would continue for a contractual period of over two years, which proved detrimental to the financial interest of the Company. Moreover, before communicating such an important decision having considerable impact on revenue, approval of competent authority was also not obtained.

Thus, unsolicited withdrawal of tender condition for exchange rate variation on imported materials without obtaining approval of the competent authority resulted in loss of ₹ 7.38 crore.

The matter was reported to the Ministry in October 2014; their reply was awaited (March 2015).

Cement Corporation of India Limited

1.6 Undertaking project expansion activities without adequate finance led to infructuous investment.

Venturing into expansion activities without ensuring availability of fund through effective measures to facilitate sale of non-operating units resulted in infructuous investment of ₹ 26.60 crore.

[♣] *Comprising of coefficients of different types of material and labour to be added up to one.*

In order to revive Cement Corporation of India Limited (the Company), the Board for Industrial and Financial Reconstruction (BIFR) approved (3 May 2006) a scheme (the Scheme) envisaging, *inter alia*, expansion of Bokajan (Assam) unit of the Company with an investment of ₹90.51 crore. As per the Scheme, expansion works were to be carried out partly by Government of India funding (₹ 20.02 crore) in the first phase and balance of ₹ 70.49 crore from sale proceeds of seven non-operating units of the Company in the second phase. As the partial expansion of Bokajan unit was not viable, the Company decided to undertake the expansion project in a single phase. The Company, accordingly, issued (24 September 2010) a letter of intent (LOI) to M/s Promac Engineering Industries Limited (the Contractor) for expansion of Bokajan unit on turnkey basis to be completed within 18 months from the date of LOI at a total cost of ₹ 142.40 crore.

Audit examination revealed that project activities had lagged behind schedule since commencement primarily due to the failure of the Company to open Letter of Credit (LC) as per terms of payment, poor project mobilization by Contractor, law and order problems in the region, and so on. Meanwhile, sale of assets of seven non-operating units did not materialize on account of absence of title deeds of land valuing ₹ 15.22 crore, and expiry of mining lease of land measuring 2,737.10 acres (expired at the time of approval of the Scheme). The Company confirmed that though efforts were made since 2008 for sale of non-operating units, these could not succeed as all qualified bidders demanded renewal of mining lease, clearance of statutory dues of respective state governments and peaceful transfer of land. The Company was not even able to liquidate contractor's bills due to financial crunch that finally forced the contractor to suspend (May 2014) all project activities. The Company incurred so far (March 2015) an expenditure of ₹ 26.60 crore on expansion activities.

The Company stated (November 2014) that (i) sale of seven non-operating units could not materialize despite best efforts, which jeopardized expansion works, (ii) the expenditure was capital in nature and essential to complete the project and would be gainfully utilized, and (iii) it had taken up the matter with the Ministry of Heavy Industry and sought an assistance of ₹ 95.40 crore in BE 2015-16 refundable on sale of non-operating units.

The reply does not take away the fact that the Company had failed to regularize title deeds of land and renew lease license though it had four years from approval of the Scheme till placement of LOI. The Company had known that these issues had to be rectified to facilitate sale of non-operating units. Without making much headway towards mobilizing financial resources, the Company ventured into expansion activities, which constrained it from opening LC and liquidate Contractor bills. As per the Company's estimate (May 2014), at least ₹ 216 crore was required (including the works awarded) to complete the project without cost escalation. Moreover, viability of Bokajan unit was doubtful as huge capacity addition with modern technology had taken place in North-East (NE) region changing demand scenario in NE region from deficit to surplus. It is, therefore, likely that the Company would not be in a position to sell seven non-operating units in the near future, and convince the Ministry for financial assistance especially in the background of challenging market environment with tough competition and high operating costs.

Thus, venturing into expansion activities without ensuring availability of funds through effective measures to facilitate sale of non-operating units resulted in infructuous investment of ₹ 26.60 crore.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

Hindustan Paper Corporation Limited

1.7 Idle investment

The Company lost the opportunity of saving in operating cost of ₹ 4.35 crore annually on consumption of coal besides blocking its fund of ₹ 22.07 crore for over 6 years due to delay in commissioning of AFBC boiler at Cachar Paper Mill.

Hindustan Paper Corporation Limited (Company) with a view to saving consumption of coal, decided (November 2004) to install two 50 TPH Multifuel FBC Boilers each at its Cachar Paper Mill (CPM) and Nagaon Paper Mill (NPM) as the coal consumption of its old boilers was on a higher side. An order was placed (May 2005) on M/s Thermax Babcock & Wilcox Limited Pune for supply of two 50TPH AFBC Boilers for two paper mills at a total value of ₹ 34.97 crore. Separate order was also placed (May 2005) on M/s. Thermax Engineering Construction Company Limited (TECCL), Pune for erection and commissioning of boilers at a total value of ₹ 4.19 crore. The boilers were scheduled to be commissioned by July 2007. It was envisaged that there would be an annual saving of ₹ 4.35 crore by installation of each boiler.

The Company was to provide 'civil fronts' to TECCL for commissioning the boiler at CPM which got delayed (18 months) due to adverse weather situation and extra piling work on account of poor soil condition. TECCL claimed (December 2008) price escalation of ₹ 0.90 crore for the delay. After completion of 80 *per cent* of the erection work, TECCL left (October 2009) the site and intimated (November 2009) the Company to replace some components of boiler which had got rusted/ damaged due to improper storage for prolonged period. The Company procured the components at a value of ₹ 0.31 crore and requested (September 2010) TECCL for resumption of the remaining work. TECCL, however, informed (March 2011) that they would resume the work only after settlement of their claim towards price escalation. TECCL further informed (June 2012) the Company that the value of remaining work would be ₹ 1.24 crore compared to ₹ 0.39 crore as per existing work order and also sought an amended work order. The Company decided (June 2012) to accept the claim of TECCL at ₹ 0.47 crore and release of ₹ 0.25 crore to TECCL after mobilising the workforce at site. TECCL subsequently agreed (June 2012) to settle its claim at ₹ 0.35 crore and mobilise the work force only after receipt of advance of ₹ 0.25 crore along with amendment of work order for the remaining erection work.

Instead of getting the remaining work done through TECCL, the Company cancelled (30 October 2013) the work order and issued (4 November 2013) Letter of Intent (LoI) to M/S. M. S. Erectors, Assam (MSE) for erection, commissioning and performance test of the boiler at a cost of ₹ 1.46 crore at the risk and cost of TECCL. The scheduled date of completion was 120 days from LoI i.e.by 4 February 2014. However, MSE carried out only 10 *per cent* of the physical work upto October 2014.

Audit examination revealed that the Company failed to commission the boiler at CPM as only 80 *per cent* of the job was completed by October 2009. Though TECCL accepted settlement of its claim at a reduced value[1], the Company did not resolve the outstanding issues and cancelled the order of TECCL. The Company issued order to another party for commissioning work after a delay of 16 months[2] with an additional cost of ₹ 0.22 crore[3]. Some components of the boiler had got damaged, in the meantime, which would require replacement/servicing as confirmed by MSE. Further, the guarantee period[4] of the boiler had expired and the vendor would not be responsible for any underperformance after its commissioning. Thus, there was an idle investment of ₹ 22.07 crore (August 2014) due to non-commissioning of boiler at CPM and the objective to save consumption of coal remained unfulfilled. Incidentally, the boiler at NPM was commissioned in March 2009 and the Company had saved on consumption of coal valued at ₹ 21.59 crore due to use of AFBC boiler instead of old boilers during 2010-11 to 2013-14.

The Company/Ministry contended (November 2013/May 2014) that TECCL had not shown interest in completing the job and commissioning of AFBC boiler at CPM got delayed mainly on account of their lackadaisical approach. The above contention needs to be viewed against the fact that TECCL had agreed to complete the remaining job subject to settlement of its claim even at a reduced value offered by the Company. However, the Company did not take any action in this respect and issued LoI to another party for the remaining job at a higher cost by ₹ 0.22 crore compared to that offered by TECCL. Ministry, while not expressly agreeing with the Company's stand, stated that the Company would have to bear the cost of the replacement of the component of the boiler, if found damaged, during commissioning of the boiler, as the guarantee period was over. Thus, the Company had lost the opportunity of achieving savings in consumption of coal of ₹ 26.10 crore[5] over a period of more than 6 years due to delays mainly attributable to itself in completing the commissioning of AFBC boiler at CPM besides blocking its funds amounting to ₹ 22.07 crore for more than 6 years.

Sambhar Salts Limited

1.8 Unfruitful investment in salt refinery

Award of contract to contractor compromising technical requirements followed by deficiencies in inspection and monitoring at the project execution stage resulted in an investment of ₹ 5.82 crore in salt refinery at Sambhar turning unfruitful without yielding desired results even after a lapse of eight years.

Sambhar Salts Limited (Company) invited (February 2006) bids for setting up of a salt refinery with capacity of one lakh tonnes per annum at Sambhar in Rajasthan to produce

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[1] *From ₹0.90 crore to ₹0.35 crore*
[2] *From June 2012 to November 2013*
[3] *₹1.46 crore - ₹1.24 crore (claimed by TECCL)*
[4] *12 months from the date of commissioning or 24 months from date of dispatch, whichever period ends earlier.*
[5] *₹4.35 crore * 6 years*

refined/non-refined, iodized/non-iodized salt. One of the critical technical tender conditions was that the bidder should have successfully commissioned at least a salt refinery of capacity of not less than 15 tonnes per hour (TPH) on turnkey basis or executed salt refinery projects of value of not less than ₹ 5 crore during last five years. None of the four bidders met the required technical criteria. Tender committee, however, called the bidders for negotiations and based on an undertaking of bidders to execute the project as per scope of work on turnkey basis, recommended relaxation of technical requirements for all bidders. After relaxation of technical conditions with the approval of the competent authority, the letter of Intent for setting up the salt refinery on turnkey basis was finally issued (April 2006) to L-1 bidder, M/s Pandian Engineering Industries, Tamil Nadu (Contractor) at a contract value of ₹ 4.95 crore.

After the award of work, the performance of contractor was found deficient both in terms of quality of work as well as timely completion of work. The contractor submitted Detailed Project Report for the refinery in November 2006 as against the target date of 13 May 2006. Against the target date of supply, erection and commissioning of salt refinery by November 2007, the contractor did not commence supply of plant and machinery till June 2008. Despite repeated letters from the Company, the performance of the contractor remained slow and the extended targets of May 2009 followed by October 2009 agreed to by the contractor were also missed. Slow progress of refinery project was discussed (November 2009) by the committee of Directors of the Company with the contractor during which the contractor finally agreed to complete the work by December 2009 and start trial runs from 15 January 2010.

Though the work was not completed by the contractor as per the agreed scope of contract and the work aggregating ₹ 42.05 lakh remained unexecuted, the refinery was put to limited production from June 2010. There was imbalance and mismatch in equipment supplied by the contractor which resulted in frequent problems in operation and the refinery never operated at its planned installed capacity. Against the planned installed capacity of one lakh tonnes per annum, actual salt production at the refinery during June 2010 to March 2014 ranged between 5,041 tonnes to 19,904 tonnes per annum (*i.e.* an average production of 11310[♦] tonnes per annum only). The contractor was repeatedly requested by the Company to supply the balance plant and machinery and stabilise the production as per tender conditions. However, the same was not done. Accordingly, the Company appointed a consultant (February 2014) to study and give recommendations to achieve the installed capacity who pointed out several deficiencies in the execution of work including use of inferior material and recommended retrofitment of the refinery to achieve the planned production level. The Company terminated (October 2014) the contract with the contractor and decided to execute the balance work at his risk and cost under the terms of the contract. However, the work for retrofitment and capacity enhancement of refinery estimated to be done at the cost of ₹ 3.54 crore was yet to be awarded (January 2015).

It was further observed that the Company neither had any professionally qualified staff for checking the specifications of the machinery and material at the time of delivery and execution of the project by the contractor nor did it ensure its testing and inspection by an

[♦] ***Calculated based on the actual production of 43,356 tonnes from June 2010 to March 2014.***

independent expert. As a result, equipment and machinery supplied by the Contractor was of inferior quality as compared to the agreed tender specifications as assessed by an independent consultant. These deficiencies, *inter alia*, included, leakages in wet mill and other equipment reducing their efficiencies; inadequate drainage provision resulting in seepage; improper designing of dryers and foundation of machines; malfunctioning of various equipments/ machines; and loose wirings, besides the inferior brands of bearing used.

Thus, due to relaxation of critical technical requirements at the tender evaluation stage and lapses in inspection and monitoring during project execution, the refinery set up at a cost of ₹ 5.82 crore (₹ 2.98 crore being payments made to the contractor and ₹ 2.84 crore being interest payable on Government of India loan for setting up of refinery) did not achieve the desired results even after lapse of more than eight years of the award of work.

The Company accepted (January 2013) that most of the equipment and machinery supplied and installed by the Contractor were of inferior quality and did not meet the required standards and needed replacement/re-installation. They also accepted (January 2013 and December 2014) that they did not have required competent manpower for installation and commissioning of the project and also did not take steps to engage professional/qualified staff for monitoring and implementation of the work done by the Contractor.

Thus, award of contract to a contractor compromising technical requirements followed by deficiencies in inspection and monitoring at the project execution stage resulted in an investment of ₹ 5.82 crore in the refinery becoming unfruitful without achieving the desired results.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

CHAPTER II: MINISTRY OF MINES

Hindustan Copper Limited

2.1 IT Audit on implementation of Oracle e-Business Suite (EBS)

Hindustan Copper Limited (HCL) implemented Oracle E-Business Suite (EBS) in October 2008 to standardise the Process and for uniform codification throughout HCL and also to centralise the processing and to minimise the time and cost for Hardware Maintenance at remote places. HCL has implemented Oracle E-Business Suite R12 ERP system to carry out all the business functions of the Company from various locations. The company incurred ₹ 4.52 crore towards cost of software and ₹ 8.70 crore for hardware cost.The following issues were observed during audit of Oracle EBS application:

2.1.1 IT related issues

Following issues were observed in audit:

IT policies

The Company has not formulated any Information Security Policy stating user classification for profile creation, password policy, number of failed login attempts, etc. exposing the system to threats of unauthorized usage and loss of data. The management replied (April 2014) that they were in the process of preparation of IT security policy.

Logical access control

(i) Seeded application user account protection

In terms of Secure Configuration Guide for Oracle E-Business Suite, the passwords for seeded application accounts should be changed or disabled. However, it was observed that several application user accounts[♣] were kept with their default password against the recommendation of Secure Configuration Guide for Oracle E Business Suite, Release 12 of Oracle Corporation – Version 1.1.1. This indicated potential exposure to the risk of unauthorised access.While accepting (April 2014) the fact, the management assured to take appropriate steps.

(ii) Unauthorised login activity

Scrutiny of user login records, on sample basis, revealed the following:

- User ids of few users were logged in when the original user was absent or on leave indicating the possibility of the user id being shared.

[♣] ***OP_CUST_CARE_ADMIN, OP_SYSADMIN, MOBILEADM, etc.***

- In terms of Secure Configuration Guide for Oracle E-Business Suite, the maximum number of failed login attempts per day was to be configured as five. But it was observed that unsuccessful logins were not being monitored as significant number of failed login attempts were noticed under various user ids.

The management accepted (April 2014) the finding and was in the process of taking appropriate measures.

***2.1.2 Quality of Master Data*:** Master data files are meant for integrity, consistency, completeness and accuracy of master data records. Master data is of vital importance as information stored in master data files are usually critical to the processing and reporting of financial and operational data. Accuracy of master data filescan affect many related transactions and must therefore be adequately protected.

(i) **Material Master:** The material master contains various data–identification number, description, unit of measurement of materials required by the Company. It was, however, observed:

- That multiple ids (33716 ids out of 749944 ids) were created for same materials indicating lack of supervision in maintenance and updation of master records. Management had stated (April 2014) that based on use and transaction, material codes are assigned to multiple inventory organisations across all the units.

(ii) **Vendor Master:** Analysis of the Vendor Master (other than employees) revealed that:

- No party name was attached for several vendor ids and address field was also not captured for several vendors indicating incomplete data.

- Creation of two different vendor ids for several suppliers, though Permanent Account Number (PAN) was same for each of such two different ids. Existence of duplicate vendor ids in the master indicated lack of validation control which led to placement of purchase order to the same vendor under different vendor ids.

While accepting (April 2014) the fact, the management had agreed to take necessary action.

(iii) **Wrong definition of unit of measurement:** There are materials with unit of measurement (UoM) "NO". For such items quantity in stock should be in whole numbers. However, scrutiny revealed some instances where quantity in stock were in fractions though the UoM was "NO", thereby indicating deficiency in customization.The management offered (April 2014) no comment as no item code reference was provided to them. The reply of the management was not acceptable as related information was available in their ERP system.

2.1.3 Depreciation of fixed assets:

Schedule XIV of the Companies Act, 1956 requires that any asset valuing ₹ 5000 or less is to be depreciated fully in the year of addition. In 630 cases it was seen that assets valuing ₹ 5000 or below were not depreciated fully and an amount of ₹ 1.04 lakh needed to be depreciated. Management stated (July 2014) that necessary rectification has been carried out and accounted for. Further checks, however, revealed that some such instances still existed in the system without rectification which indicated that the system of accounting for depreciation is still prone to errors.

The Company could not map the depreciation rates allowed by the Companies Act, 1956 and charged depreciation at rates other than the prescribed rates. It was observed that there was 83 asset items valuing ₹ 859.79 lakh (out of total 21309 asset items valuing ₹ 22386.13 lakh) which were charged depreciation at rates other than rates of depreciation prescribed the Companies Act. Management stated (July 2014) that these are the assets which are in use since long i.e. before the introduction of Schedule XIV to the Companies Act and that the rates of depreciation which are being charged at the derived rates based on the estimated life of the asset. The contention of the Management is not correct as all assets are required to be depreciated as per Schedule XIV to the Companies Act. In case of 1 asset valuing ₹ 35.08 lakh, depreciation flag was kept at "yes", however, no depreciation rate was attached. Management stated (July 2014) that necessary rectification has been carried out at the instance of Audit. However, no such action was undertaken.

2.1.4 Manual intervention in financial records

- ***Tracking of customer credit balance for sales***

In terms of marketing policy of the company, 100 *per cent* payment should be made by the party before lifting materials from the company. However, scrutiny revealed that delivery of materials valuing ₹ 182.55 lakh was made to three customers though no actual advance payment was received from the same. Thus, non-existence of monitoring system for verification of real-time customer payment led to allowance of soft credit facilities to parties who were not eligible for the same. The management had stated (April 2014) to take necessary action in this regard.

***2.1.5 Valuation of Stock items*:** As per accounting policy of the Company, the raw materials are valued at the lower of the net realizable value and weighted average cost. Scrutiny of valuation of stock items in the system revealed that:

- Instances where quantity of closing stock of materials was zero but total value was captured as more than zero.
- Items in the stock valued at "NIL" though quantity was available.
- Same items of stock at stores which were valued at different rates. This indicated lack of inventory management through the system and against the prudent accounting principles. Moreover, existence of same materials with different quantity may lead to improper inventory control. In respect of point no. (1), the management had accepted (April 2014) the audit observation that for zero material quantity, stock value will also be zero. For point no. (2), the management had stated (April 2014) that for materials having stock quantity less than one unit and for non-moving items item cost (item rate) was zero. The reply of the

management was not acceptable that in the list there were some items, quantity of which were more than one unit and none of the materials were separately marked as non-moving item. In respect of point no. (3), the management had stated (April 2014) those items for which item cost were updated on day to day basis, different rate may exist for same item. The reply of the management was not acceptable as different rate for same item of material should not exist as per prudent inventory management.

2.1.6 Delay implementation of Payroll Module

The payroll module was one of the modules of Oracle EBS package procured in 2008. This payroll module was, however, implemented in all the units alongwith legacy payroll system only in 2011-12, indicating delay in implementation and intended benefits of the same.

The matter was reported to the Ministry in February 2015; their reply was awaited (March 2015).

2.2 Fraudulent accounting activities

Benefits were extended to customers by forging, manipulating the documents as well as by passing fictitious entries in the system to camouflage the accounts of the company.

As per the procedure followed by Hindustan Copper Limited (the Company), the customer has to deposit money in advance in form of RTGS, pay order, cheque or demand draft (DD) for purchase of copper product. Thus, before issuing delivery order, receipt of payment/availability of sufficient credit balance in the customers' account was to be ensured.

The Company had introduced Oracle E-Business Suite as its Enterprise Resource Planning (ERP) system since 01 October 2008. The Accounts Receivable Module (ARM) of the ERP system is used to record receipt of payments for sale of copper products while the Marketing Module (MM) is used for recording of sales transactions. When a customer makes payment for lifting materials, money receipt entry is recorded in the ERP which is applied to generate delivery order to allow the customer to lift materials.

Scrutiny of customer files, delivery orders, bank statements, data from ERP system and analysis of the same through IDEA package disclosed that fictitious entries were made both in ARM and MM at Regional Sales Office (East) (RSOE), Kolkata to extend pecuniary gains to some customers. However, the files of the customers as provided to audit by the management were incomplete and did not contain all the papers relating to the business carried out with those customers.

It was noted that money receipts and bank statements were fabricated for issue of delivery orders in favour of customers. During the period covered in audit (2010-11 to 2013-14), the company transacted with 48 customers in the RSOE, Kolkata, out of which 3 cases of irregular/unauthorized transactions were noticed during test check. It was found that

₹ 282.44 lakh was shown as fraudulent receipts against which delivery orders of ₹ 182.55 lakh were issued **(Annexure-I**). Such fraudulent receipts were subsequently reversed.

Audit examination further revealed that there were instances of transfer of customer refunds to other customers or unjustified customer refunds. The ERP system captured such refunds as invoice issued to the customer. Out of 73 customer refund cases, 28 refunds were routed through a particular account code viz. "25418–Bank Transfer" which was used as an intermediary account to park the above refunds and later the same was transferred to the accounts of other customers and shown as receipts from such customers. This was done either to enable such unduly benefitted customers to lift materials or to adjust their outstanding dues. Through this mechanism, credit balances of ₹ 241.81 lakh in respect of 34 customers (due as on 1 October 2008 – date of go live of ERP) were fraudulently transferred to the account of 13 customers which accounted for about 42 *per cent* of the total amount (₹ 578 lakh) due to customers as on 1 October 2008 **(Annexure-II)**.

Audit also observed that out of six number of bank guarantees (BGs) valuing ₹ 200 lakh furnished by M/s. Almetal Industries Private Limited (AIPL), five BGs valuing ₹ 150 lakh were not encashed and allowed to expire by September 2011, even though at that point of time the customer had outstanding dues of ₹ 257.73 lakh. Scrutiny of this customer ledger account also revealed that a cheque of ₹ 50 lakh received from the customer was not encashed and reversed subsequently and AIPL was extended undue benefit of ₹ 8, 69,800 by passing a wrong credit memo on account of interest. It was further observed that undue advantage was extended to two customers viz. AIPL valuing ₹ 91.78 lakh and M/s. Shree Bajrang Bali Ashok Construction Private Limited valuing ₹ 38.16 lakh by way of unauthorized fake balance transfer from other customers' account.

We also noticed following deficienies in the internal control system of the Company:

- Basic control of matching receipt numbers, financial instrument numbers and dates with the physical documents was not exercised.
- There was no system of recording of receipt of cheques from the customers. As a result, control over cheques being encashed was lacking.
- The system of monitoring the Bank Guarantees was not ensured as no bank guarantee register was maintained.
- Internal control through the ERP system was lacking as the vouchers, credit memos/ debit memos, rectification or reversal of entries were created and updated by using the same user id which is against the basic IT security norms.
- The laid down policy of the company regarding delegation of powers was not followed properly for issue of credit notes and allowing refunds to the customers.
- On the basis of instruction of the audit committee of the company, though all manuals including internal audit manuals were submitted (1 February 2011) by State Productivity Council – West Bengal, yet those manuals were not adopted (August 2014).

- Internal audit reports were not discussed at length in the audit committee meetings. As such, it could not be concluded whether the audit committee was regularly monitoring the internal audit findings.

- There was no system of periodical confirmation of balances of debtors and there was no comprehensive fraud policy.

While scrutinising the ERP records of all the above transactions, it was noticed that most of the transactions were executed using a user id viz. "RSOE_FIN_1". It was found that a permanent employee of the company used this id till August 2011. Thereafter, the same id was used by a contract employee till the completion of contract tenure (March 2013). Audit observed that there was lack of justification towards allowing a contract employee to use this id of the Finance section of the company. Further, this id was utilised not only to create the document but also to validate/approve the same. Further, it was noticed that another id viz. "FIN_CORE_1" was used by Advisor (Finance). It was also found that in January 2012 a new employee in the Marketing (Finance) was recruited to take over the duties from the contract employee and to replace the contract employee after a gap of six months. But the same was not done; rather, the new employee was shifted (July 2012) to another section, thereby allowing the contract employee to continue with the job upto 31 March 2013, during which period most of these irregularities took place. It would appear that the continuance of the contract employee even when a regular employee had been recruited would suggest complicity.

Management accepted (January 2015) all the above audit observations. However, despite such serious irregularities, management has neither fixed responsibility nor initiated any legal action.

The matter was reported to the Ministry in February 2015; their reply was awaited (March 2015).

CHAPTER III: MINISTRY OF PETROLEUM AND NATURAL GAS

Indian Oil Corporation Limited

3.1 Wasteful Expenditure

The Company went ahead with the execution of Guwahati ATF pipeline project and procured the materials thereof without finalization of the commercial terms with OIL who was the owner of more than 50 *per cent* of the required land for laying the pipeline. Proper survey of the exact terrain of the land was also not conducted before planning of the project. All these led to abnormal increase in project cost and consequent abandonment of the project resulting in an idle investment of ₹ 17.80 crore and loss of ₹ 2.57 crore.

Indian Oil Corporation Limited (Company) decided (November 2009) for laying a 35 kilometre (km) long Aviation Turbine Fuel (ATF) pipeline from Guwahati Refinery (refinery) to the Aviation Fuel Station (AFS) at Guwahati Airport at an estimated cost of ₹ 44 crore as this would ensure safe, economical and faster movement of ATF from the refinery to AFS. It was planned to lay the pipeline in the common right of way (RoW) of Oil India Limited (OIL) upto Betkuchi (18 km.) and thereafter it would traverse in the independent RoW for 17 kms. upto AFS. The orders for supply of mainline pipes were issued in April 2011 at a value of ₹ 14.53 crore and the supply was completed in August 2011.

The management, however, approached OIL for permission to lay the pipeline in its corridor in August 2011. In response, OIL intended to undertake laying of the pipeline for the entire length of 35 km. After several round of discussions, the commercial offer of OIL for laying of pipeline was received in May 2013. OIL's offer towards mainline pipe laying charges (including RoW) and PMC♦ charges was higher by ₹ 30 crore (approx.) than the estimated cost. While planning for the project, laying of the pipeline was assumed in the normal terrain. After survey it was, however, found that most of the stretches of the OIL's corridor was on marshy land which led to the above increase in mainline laying cost. The project cost was subsequently increased to ₹ 87 crore i.e. ₹ 43 crore higher than the earlier estimate. The Company, therefore, decided (December 2013) to abandon the project as the advantages envisaged did not justify such a high investment. In the meantime, till March 2014 the company had incurred an expenditure of ₹ 21.81 crore on this abandoned project of which ₹ 17.80 crore was related to cost of mainline pipe and other capital stores and ₹ 1.44 crore was for construction of control building. The balance amount of ₹ 2.57 crore incurred towards survey etc. was written off.

Audit observed that the management went ahead with the execution of the project and procured the materials thereof without finalisation of the commercial terms with OIL who was the owner of more than 50 *per cent* of the required land for laying the pipeline.

♦ ***Project Management Consultancy***

Further, proper survey of the exact terrain of the land was not conducted before planning of the project. All these resulted in abnormal increase in project cost and consequent abandonment of the project which indicates injudicious project planning.

Management in its reply stated (September 2014) that the project was approved only after initiation of discussions with OIL about laying of the pipeline in their common RoW and after conducting a route survey. It was also stated that due to reasons beyond the control of the Company like OIL's delay in agreeing to take up the entire work with the condition of appointing them as PMC, the project cost was increased leading to shelving of the project. The above reply is not tenable as the management took initiative to discuss only the technical feasibility of the project with OIL prior to approval of the project. In fact, the initiative for finalization of commercial terms and conditions with OIL for laying the above pipeline was commenced after such approval and even procurement of majority of the materials was completed before finalization of such terms and conditions.

Management's further contention that the materials procured for the project were proposed to be utilized in other ongoing projects viz Goa ATF Pipeline project, Ennore-Trichy-Madurai (ETM) LPG Pipeline project etc. appear to be afterthought. The proposed technical specification (WT i.e. wall thickness) of the mainline pipes of ETM project was not similar to that of the mainline pipes of Guwahati ATF pipeline project. Further, the length of mainline pipe procured for the abandoned Guwahati ATF pipeline project was 35 km. whereas the same for the proposed Goa ATF pipeline project was 9.3 km. only.

This case would show the anxiety to procure the material much ahead of details of the project being worked out. It is a case of wasteful expenditure.

The matter was reported to the Ministry in November 2014; their reply was awaited (March 2015).

3.2 Avoidable expenditure due to non-rescheduling mechanical completion of tankage facilities within the stipulated period

Failure to reschedule mechanical completion of tankage facilities for a refinery project in line with provisions in the BOOT contract resulted in an avoidable expenditure of ₹ 12.10 crore without deriving any benefit.

In order to meet the requirement of crude oil and finished product tanks for the Paradip Refinery Project (PDRP), Indian Oil Corporation Limited (the Company) signed (June 2010) an agreement on build-own-operate-transfer (BOOT) basis with M/s IOT Utkal Energy Services Limited (BOOT Contractor). The works were to be completed within 24 months (by November 2011) from the issue of Fax of Acceptance (23 November 2009), which was extended by two months at the request of BOOT Contractor (i.e., completion by January 2012). As per clause 4.4 of the contract, in case the Company failed to supply utilities by the date set forth or was unable to supply crude oil/product through no default of the Contractor, the commissioning shall be deemed to have taken place after three months from the time schedule or actual commissioning, whichever occurred earlier. The tankage facilities were completed in July 2013. Since the refinery was not commissioned, and in line with clause 4.4 of the contract, the Company paid invoices from November 2013 (i.e., after 3 months from completion).

Audit observed that as per the contract (clause 4.6), the Company had the right to extend the commissioning schedule of tankage facilities for six months and such right was to have been exercised within six months of acceptance of work order. It was also noticed that while accepting the request of BOOT contractor to extend the contract period for two months, the Company reiterated its right to extend the commissioning schedule up to 22 July 2010. However, the Company failed to extend the commissioning schedule despite the Project Appraisal Group (PAG) of the Company having noticed (November 2009) the risk of time overrun in the PDRP and possible payments to the contractor without utilizing the facilities.

The Company stated (October/November 2014) that the risk highlighted by PAG had been taken care of by incorporating a provision for extending commissioning schedule by a maximum period of six months. The Ministry further clarified (February 2015) that the provision for extending commissioning by six months was kept in the tender as a pre-emptive action and the Company had exercised it to the extent of two months, at that point of time. The Ministry also stated that after completion of tankage facilities in July 2013, O&M activities were necessary to preserve the health of the equipment and maintain the facilities in working order.

Replies need to be viewed in the light of the fact that extension of two months was granted at the request of BOOT Contractor and not as a measure to mitigate the time overrun highlighted by PAG. Further, the mandatory O&M activities would have been carried out by BOOT contractor at his cost for a period of six months, had the Company opted for extending commissioning schedule as per contract. It is also pertinent to mention that the overall physical progress of the PDRP was 23.10 *per cent* against scheduled progress of 33.31 *per cent* at the end of July 2010.

Thus, the fact remains that the Company failed to utilize the available opportunity to extend the commissioning schedule that would have avoided payment of O&M charges of ₹ 12.10 crore for six months for the BOOT contract.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

3.3 Deficient tender document coupled with Company's failure to negotiate with L1 bidder in view of reduced rate of withholding tax led to avoidable expenditure

Tender documents of the Company were deficient because the bidders were asked to quote price inclusive of tax and duties. Further, the Company failed to negotiate with M/s Basell Poliolefine Italia, Italy, L1 bidder to reduce the price in view of downward revision of withholding tax rate which led to avoidable expenditure of ₹ 9.56 crore.

Indian Oil Corporation Limited (the Company) issued (October 2005) limited tender enquiry/Notice Inviting Tender (NIT) to line up the process licensor for its Polypropylene (PP) unit at Paradip Refinery (PDRP). The bidders were requested to submit their offers by 15 February 2006 and required to quote gross of withholding tax (WHT) instead of indicating the rate and amount of WHT included in the price bid separately. M/s Basell Poliolefine Italia, Italy (Basell), being the L1 bidder, was awarded the work at a price of ₹ 169.60 crore[1].

As Basell was already rendering similar services at Panipat refinery of the Company, it accepted the price with same terms and conditions as applied in respect of Panipat refinery. The rate of WHT applied in respect of Panipat refinery was 20 *per cent* for royalty or fees for technical services. This rate was, however, reduced to 10 *per cent* (after including surcharge and cess, effective rate was 10.56 *per cent*) vide Finance Act, 2005, with effect from 1 June 2005.

While approving the draft agenda note for consideration of the Board of Directors of the Company (Board), General Manager (Finance) [(GM (F)] noted (October 2006) that quoted rates of Basell were inclusive of WHT at the rate of 20 *per cent* and accordingly payments would be released after deducting 20 *per cent* WHT. However, tax remittance would be at the rate prevailing as per Income Tax Act, but this remark was not apprised to the Board which accorded (November 2006) its approval to award the job to Basell at ₹ 169.60 crore inclusive of taxes & duties. The Company entered into agreement with Basell in March 2007.

As per Clause 8.8 of the agreement all fees and charges to be paid by the Company to Basell were subject to deduction of all WHT applicable in India at prescribed rates on any money payable as applicable from time to time. Further, as per Clause 8.7, in case of delays in paying fees in accordance with terms of the agreement, Basell could give written notice to the Company specifying the claimed particulars of default. If such default was not remedied by the Company within 60 days after receipt of such notice, Basell might assess finance charges (not exceeding the maximum amount permitted by applicable law) for the period of delay.

For the invoices raised during July 2007 and January 2008, the Company made payments to Basell after deduction of 10.56 *per cent* towards WHT, while for invoices raised in November 2007 and March 2008, it deducted WHT at 20 *per cent*. Further, the Company asked (February 2008) Basell to refund the excess amount paid due to adoption of WHT at the rate of 10.56 *per cent* instead of 20 *per cent*. Basell accepted the same and remitted (February 2008) USD 881191 (₹ 3.54 crore)[2]. However, after receipt of tax deduction certificate in July 2009, Basell realized that the Company had deposited only 10.56 *per cent* of WHT to tax authorities against the deduction of 20 *per cent* from its invoices. Basell, therefore, demanded (November/December 2009) refund of 9.44 *per cent* of the license fee. It also demanded (September 2010) financial charges of USD 5,05,096 (₹ 2.30 crore[3]) under clause 8.7 of the agreement.

The Company obtained (December 2010) legal opinion from Additional Solicitor General of India (ASGI). ASGI opined that as per the terms of agreement, Basell was entitled to

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[1] ***Initial rate quotes by M/s Basell was ₹ 173.30 crore. Price after negotiation came to ₹ 169.60 crore.***
[2] ***At the rate of ₹. 40.1623 per USD.***
[3] ***At the rate of ₹. 45.54 per USD.***

the refund of the difference of 9.44 *per cent* aggregating to USD 1685382.20 and advised the Company to negotiate with Basell to bring it down to the extent possible.

Basell served (February 2011) legal notice claiming USD 1685382.20 (₹ 7.60 crore)[1] towards additional WHT deducted from the invoices and USD 626869 (₹ 2.83 crore)[2] towards finance charges under clause 8.7.

Left with no alternative, the Company paid (May 2011) USD 1685382.20 (₹ 7.65 crore)[3] towards excess deduction on account of WHT. The Company also settled finance charges, after negotiation with Basell, by paying USD 358264 (₹ 1.91 crore)[4].

Audit examination revealed that –

- The tender document was deficient as the bidders were required to quote licence fee inclusive of tax rather than obtaining rate for contract and taxes separately.

- Even after the remarks of GM (F) regarding reduction of withholding tax rate, the Company did not exchange any correspondence with Basell to reduce the license fee in view of reduced rate of WHT at the time of entering into the licensing agreement. Consequently, the Company lost an opportunity to get the license fee reduced to the extent of ₹ 7.65 crore.

The Company replied (November 2014) that the License agreement was executed in line with the tender, licensor's offer and Board approval. The remarks of GM (F) were neither in line with tender document nor in line with the offer of Basell and therefore in the absence of written document could not have been considered in the Agenda note.

The reply needs to be viewed against the fact that despite getting clear indication from the note of GM (F) about difference in withholding tax rate that would have been considered by Basell and actual rate in force, the Company did not clarify the issue with Basell and incurred an avoidable expenditure of ₹ 9.56 crore. As Basell had accepted same terms and conditions as were applied in respect of Panipat refinery where WHT deduction was 20 *per cent*, the Company ought to have taken cognizance of remarks of GM (F) and negotiated further with Basell at the time of entering into agreement, in view of reduced rate of WHT and avoided extra expenditure of ₹ 9.56 crore.

Thus, deficient tender document and failure to negotiate with Basell in view of reduced rate of withholding tax led to avoidable expenditure of ₹ 9.56 crore[5].

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

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[1] ***At the rate of ₹45.106 per USD***

[2] ***At the rate of ₹45.106 per USD***

[3] ***At the rate of ₹45.39 per USD***

[4] ***At the rate of ₹53.31 per USD***

[5] ***(₹7.65 crore towards excess deduction on WHT + ₹1.91 crore towards finance charges)***

3.4 Non achievement of envisaged benefits from Flue Gas Cooler

The Company could not achieve intended benefits from Flue Gas Cooler (FGC) due to frequent failure leading to excess consumption of fuel. Further the replacement of tubes alone of FGC contrary to advice of BHEL at a cost of ₹ 7.62 crore did not yield desired results and has become wasteful as the Company has decided to install new FGC unit.

Flue Gas Cooler (FGC) is a part of Resid Fluidized Catalytic Cracking Unit of Barauni Refinery of Indian Oil Corporation Limited (Company) wherein thermal energy of flue gas is recovered by generating high pressure superheated steam for utilisation in the processing units of the refinery. In case of FGC not functioning, there would be loss in steam generation by about 75 MT/hour thereby increasing the fuel consumption of the refinery. Leakages from FGC were often encountered since commissioning of RFCCU. There were 23 such failures between August 2002 and June 2011. The reasons for the above leakages were got examined (2003 and 2004) initially by Samsung (LSTK contractor) and Alstom (Original Equipment Manufacturer). Both the agencies pointed out that the tubes of FGC were damaged by corrosion due to condensation of sulphur containing gases. It was also pointed out that there were vibrations in the boiler and some of the tubes inside the boiler were found oscillating even at non-operative conditions. The Company requested (November 2004) Thermax–Babcock & Wilcock (TBW) to carry out design study etc. for failure of FGC. TBW submitted (January/February 2005) its offer with the proposal for three months shutdown of the FGC for such study. However, such proposal was not accepted considering longer outage period of FGC. BHEL, to whom the matter was also referred, opined (July 2006) that the replacement with a totally new design of steam/mud drums and various tubes of FGC would be a permanent solution. It was further stated that replacement of tubes alone would not ensure reliability of FGC.

The company, however, replaced the tubes of FGC at a cost of ₹ 7.62 crore during July to November 2011. Despite replacement of tubes there were frequent failures and the FGC remained inoperative for 257 days during the period from January 2012 to June 2014.

In view of the persistent failure of the FGC, the management decided to replace the entire Unit. The Company in its 596th Board Meeting on 20 March 2013, while according approval for replacement of FGC at an estimated cost of ₹ 105 crore, expressed concern that such a defect was not detected by the Engineering Consultant or by the construction team at the time of installation. The Board, therefore, desired a detailed investigation should be carried out.

In pursuance of the Board's directions, a detailed investigation was carried out which came to the conclusion that this was manufacturing defect. The Committee also concluded that responsibility for quality assurance during execution was that of the Project Management Consultant (PMC), namely M/s. Engineers India Limited.

This case highlights the failure of management in identifying the defects in the FGC. Taking ad hoc decisions where an investment of ₹ 7.62 crore was made during November 2011 also did not address the real cause of the problem. This case further highlights the inability of the management to take appropriate action against the PMC for deficiencies in the performance.

The matter was reported to the Ministry in October 2014; their reply was awaited (March 2015).

Oil India Limited

3.5 Loss of revenue on account of discount allowed on sale of crude oil containing basic sediments and water content above the norm

Failure to create facilities in time to contain the basic sediments and water content in the crude oil supplies within the prescribed limit resulted in loss of revenue of ₹ 105.55 crore during 2008-09 to 2013-14.

Oil India Limited (the Company) is primarily engaged in exploration, production and transportation of crude oil and natural gas, both in the country and overseas. The presence of Basic Sediment and Water (BS&W) in the crude oil affects the quality of the oil supplied to oil refineries. Therefore, it is desirable for the oil producing companies to create necessary dehydration facilities for improving the quality of crude oil. Moreover, under the post Administrated Price Mechanism regime (2002), it became very stringent for the oil producing companies to maintain BS&W content in the crude oil at 0.2 *per cent* and below since the sale price was subject to discount at slab rates in case the content of the same in the crude oil exceeded the norm.

Audit observed (December 2012) that in the north eastern region, 35 *per cent* of production of the Company was from Greater Tengakhat Area, 60 *per cent* from Naharkatiya Area and rest 5 *per cent* from Shalmari and Moran Area, which after processing in the nearby production installations was transported to Central Tank Farm at Naharkatiya Area for onward dispatch to refineries through a main trunk pipeline. However, the crude despatched to the oil refineries contained higher BS&W than the desired level for which the Company had to allow discount to the customers over the years.

It was seen from the records that:

- In order to address the BS&W content in the crude oil, the Company constituted a Committee (March 2005) to study the feasibility for installation of crude dehydration facilities at the existing Central Tank Farm at Naharkatiya Area taking into account safety norms and other related aspects. The Committee recommended (June 2005) installation of a dehydration facility at Central Tank Farm at Naharkatiya Area. As the Central Tank Farm was very old and the site could not meet safety norms, an alternate site at Oil Collecting Station-3 (OCS-3) was selected for installation of Secondary Tank Farm with dehydration facility, though the same was rejected earlier on environment consideration and a new place at Naholia was selected. The Company could not acquire the required land at Naholia due to land related problems and shifted the project to a new site at Central Gas Gathering Station (CGGS) (near Madhuban tea estate, Assam) by redesigning the plant layout so that the plant fitted in the available land. However, the said dehydration facility is yet to be set up (July 2014) for catering to crude oil produced at Naharkatiya Area.

- The Company had commissioned Intermediate Tank Firm with dehydration facility at Greater Tengakhat Area in May 2007 but failed to commission the Tengakhat – Shalmari Pipeline (TSPL) till May 2012, which was the best option to inject the crude oil into the main trunk pipeline as per the report on feasibility conducted by the task force in August 2005.

- Commissioning of dehydration facility at Greater Tengakhat Area and delayed commissioning of TSPL project without commissioning dehydration facility for crude oil produced at Naharkatiya Area resulted in intermixing of crude in the main trunk pipeline and untreated crude oil of Central Tank Firm with the treated crude oil of Intermediate Tank Farm.

Though more than nine years have passed since the recommendation of the Task Force (June 2005) to create dehydration facilities for crude oil produced at Naharkatiya Area, the facility remains to be created. Failure of the Company to create necessary facilities in time to reduce the BS&W content in the crude oil has led to it foregoing revenue of ₹ 105.55 crore during the period 2008-09 to 2013-14, on account of discounts allowed to various refineries for BS&W content in the supplied crude exceeding norms.

While accepting the audit observation, the Management/Ministry stated (October 2013/February 2014) that:

- OIL management was sincerely concerned about the loss of revenue to the Company on account of higher BS&W content. The loss on account of deductions effected by various refineries for BS&W content in crude exceeding norms by OIL was not intentional but due to technical factors and certain environmental issues beyond OIL's control.

- The task force recommendation for setting up a crude dehydration facility at Naharkatiya Central Tank Farm was reviewed by the local management and OIL decided to look at an alternative site taking cognizance of the vintage of Central Tank Farm and safety issue.

- Currently 60 *per cent* of OIL's total production was being handled at Central Tank Farm at Naharkatiya, where there was no requisite infrastructure for dehydration facility. Once Secondary Tank Farm project was commissioned, all the crude oil delivery lines which were presently connected to Naharkatiya Central Tank Farm would be re-routed to Secondary Tank Farm and only treated crude oil would be despatched to Naharkatiya Central Tank Firm from Secondary Tank Farm for onward delivery to refineries. Therefore, Intermediate Tank Farm and Secondary Tank Farm together were expected to keep BS&W content lesser than the desired level.

- OIL is committed to supply the customers with quality crude. With this intention projects like Intermediate Tank Farm and Secondary Tank Farm were undertaken. Considering the cost of setting up of new Secondary Tank Farm was about ₹ 352 crore, the Company could have contemplated paying penalty rather than striving to set up a CAPEX and OPEX intensive BS&W reduction unit amidst the hostile environment. However, being a responsible company, OIL had initiated action to set up the required facilities to bring down BS&W content in refinery supplied crude oil. Results of the action initiated by the Company would show in future.

The contention of the Management/Ministry is not tenable in view of the following:

- Audit has emphasized that OIL being a responsible company should have been able to address technical factors and environment issues within a reasonable time and this ought not have taken almost a decade in supplying quality crude to consumers.

- The fact remains that the Company is yet to establish required facilities for dehydration of crude oil of Naharkatiya area even after a lapse of nine years, which was recommended by the task force in June 2005. The site for construction of Secondary Tank Farm with dehydration facility at Oil Collecting Station-3 was agreed upon in August 2005 in place of Central Tank Farm, Naharkatiya. But the same is yet to be commissioned as there were repeated changes of site for the project on environmental and technical grounds which indicated deficiencies in project planning and management.

- Environment and land related problems are common to any project. OIL has been continuing with its other core activities like exploration and production of crude in the same environment and these issues could have been tackled through better co-ordination with local administrative authorities.

- CAPEX of ₹ 352 crore for setting up the dehydration facility should not be a core issue for a cash rich company like Oil India Limited having cash and cash equivalents of ₹ 12133 crore as at 31 March 2013. Moreover, the full benefit of the investment of ₹ 92.66 crore already made on Intermediate Tank Farm and Tengakhat-Shalmari Pipeline project would be possible only when Secondary Tank Farm is put to operation without further delay.

- Similar issue was pointed out in the Audit Report (Para 14.7.1 of Report No. 11 of 2008) in respect of Oil and Natural Gas Corporation Limited (ONGC), another upstream oil sector company. ONGC has made significant improvement in the quality of crude oil as the discounts allowed were brought down from ₹ 30.47 crore in 2009-10 to ₹ 7.47 crore in 2012-13. As against this, the discounts allowed by OIL have increased from ₹ 12.53 crore in 2008-09 to ₹ 21.72 crore in 2013-14.

Thus due to delay in installation of required facilities for dehydration of crude oil of Naharkatiya area, the Company continued to forgo revenue by way of discounts to refineries for not maintaining quality norms.

Oil and Natural Gas Corporation Limited

3.6 Avoidable assumption of liabilities and incurring avoidable expenditure in development of two oil and gas bearing fields due to acceptance of unfavourable terms in Settlement Agreement with a defaulting contractor

Pursuant to award (November 2004) of a contract for Engineering and Construction works as part of development of a deepwater and a shallow water oil and gas bearing field, and subsequent termination (June 2007) of the contract due to stalling (June 2006) of work by the contractor, Oil and Natural Gas Corporation Limited (ONGC) entered into a Settlement Agreement with the defaulting contractor without conducting due diligence whereby it obtained a reduction of only USD 0.7 million while it ended up paying a settlement sum USD 32 million (₹ 149.37 crore) to the contractor through 'out of court' resolution of disputes, besides incurring additional expenditure of USD 66.34 million (₹ 342.34 crore) in implementing the agreement in deviation of the approval accorded by its Board in October 2008. The expenditure (₹ 342. 34 crore) was irregular as it did not have approval of the Board and was not in the financial interests of ONGC. In addition, ONGC incurred an avoidable expenditure of USD 13.7 million (₹ 63.79 crore) on payment of rental for tools which was included in the amount paid for the work completed by the contractor under the already terminated contract. The project for development of the oil and gas fields remained incomplete (January 2015) as against the revised target date of April 2010 while projected revenues of ₹ 1,500 crore per annum remained unrealised (January 2015).

3.6.1 Introduction

3.6.1.1 Oil and Natural Gas Corporation Limted (ONGC) entered (November 2004) into a contract on lumpsum turnkey basis with M/s Clough Engineering Limited, Australia (CEL) in November 2004 for Engineering and Construction work in connection with development of (i) a deepwater field (G1) and (ii) a shallow water field (GS15) in the Krishna Godavari basin, at a cost of USD 215.25 million (₹ 992.91 crore). The scheduled date of completion was April 2006. This contract was part of the integrated development project of G1 and GS15 fields which involved contracts for Well Completion and on land Oil Export Pipelines with different contractors and constituted 70 *per cent* of the total project cost. Drilling was done by ONGC on its own.

3.6.1.2 As CEL had stalled work since June 2006, ONGC terminated the contract in June 2007, initiated action to encash performance bank guarantee (PBG) furnished by CEL and notified CEL that the balance work would be completed at the risk and cost of the latter. ONGC had estimated, while terminating the contract, that 70 *per cent* of the work had been completed and it had paid USD 142.69 million (₹ 632.11 crore) to CEL, by then.

3.6.1.3 CEL took up (June 2007) the matter of termination of contract as well as invoking PBG by ONGC, for arbitration. ONGC filed (August 2007) a petition in the High Court of Mumbai for obtaining, *inter alia*, the custody of equipment and material that had remained with CEL, so that it could proceed with getting the work completed through alternate means.

3.6.1.4 In its 'ad interim' order (September-October 2007), the High Court ordered maintenance of status quo with respect to custody of balance project material. Neither would ONGC get custody, nor would CEL be able to dispose of any project material. Despite this order, CEL had disposed of some project material and ONGC had filed a contempt petition before the High Court (October 2007) against CEL.

3.6.1.5 ONGC decided (April 2008) to explore possibilities of an 'out of court' settlement with CEL as it felt that it had spent around ₹ 1,000 crore on the project and that setback in project completion would delay production of oil and gas. ONGC expected that it would then be able to complete the project by April 2010 and also earn revenue of the order of ₹ 1,500 crore per annum. Accordingly, ONGC held four rounds of negotiations with CEL between June 2008 and September 2008.

3.6.1.6 On being approached by CEL against the termination of the contract and attempts by ONGC to encash PBG, Federal Court of Australia had, in the meantime (July 2008), allowed ONGC to encash PBG when ONGC realised USD 21.535 million (₹ 91.39 crore).

3.6.1.7 Negotiations with CEL centred around (i) ONGC acquiring titles and rights in equipment/material and services, (ii) settlement sum payable to CEL, and (iii) payment of rentals for Tree Running Tools (TRT) and Installation, Workover and Control System (IWOCS) to CEL.

3.6.1.8 The fourth round of negotiations was held (September 2008) by ONGC with CEL when the following terms were agreed upon:

(i) The settlement sum payable to CEL would be USD 32.7 million;

(ii) ONGC would now assume financial liability and responsibility for payments due from CEL to all Indian vendors and sub-contractors including the cost of inspection, completion, refurbishment, replacement, transportation and insurance relating to equipment/materials; and

(iii) CEL would assume financial liability and responsibility only in respect of contracts of CEL with offshore vendors and sub-contractors. Even here, CEL would not bear the liability towards ex-works cost of inspection, transportation and insurance of offshore equipment/materials.

3.6.1.9 ONGC obtained (October 2008) approval of its Board of Directors (Board) to these terms of settlement. No agreement was, however, signed by ONGC with CEL incorporating the agreed upon terms of settlement.

3.6.1.10 ONGC had entered (November 2008) into further negotiations with CEL and following revised terms of settlement were agreed upon with the approval of Chairman and Managing Director (CMD), without the concurrence of the Board. Settlement Agreement was also signed (December 2009) with CEL with the approval (June 2009) of CMD without approval of the Board. The terms of settlement were, now, as under:

(i) The settlement sum was reduced from USD 32.7 million to USD 32 million, which meant a reduction of USD 0.7 million;

(ii) CEL would supply only those equipment/materials and services as specified in the agreement at the locations (India and abroad) in the quantity and condition that they were, on 42nd day of execution of the agreement;

(iii) CEL and ONGC would jointly inspect the specified equipment/materials for confirming the quantity and their existence, within 39 days of signing the agreement;

(iv) On the expiry of 42 days from the signing of the settlement agreement, ONGC would assume all financial and other liabilities including all obligations that were previously imposed upon CEL, and

(v) CEL would supply project documents and verification documents, assign possession, titles and rights to ONGC relating only to specified equipment/materials and services.

ONGC paid USD 32 million (₹ 149.37 crore) in December 2009 for the settlement[1].

3.6.2 Audit Findings

3.6.2.1 Audit examination revealed that the Settlement Agreement of December 2009 was not approved by the Board of ONGC. A comparison of the terms of settlement decided in September 2008 which were approved by the Board in October 2008, with the terms of the Settlement Agreement of December 2009 can be appreciated in the following table:

Sl. No	Issue	Settlement approved by Board (October 2008)	Settlement of December 2009	Remarks
1.	Settlement sum payable to CEL	USD 32.7 million	USD 32 million	Though there was a reduction of USD 0.7 million (₹ 3.26 crore), ONGC ended up accepting additional liability for purchase, refurbishment/ revalidation of warranties of offshore equipment/ materials.
2.	Supply of Equipment/ materials	CEL was to supply all the 'balance' onshore and offshore equipment/materials	CEL was to supply only those equipment/ material that were specified in the agreement	ONGC allowed CEL to reduce its liability as it was now required to supply only the equipment/materials that were specified in the agreement and not all the balance[2]equipment/ materials. Correspondingly, ONGC took upon itself additional liability without assessment of the cost.
3.	Financial liability towards offshore vendors/sub contractors	CEL was to assume full responsibility for this except for cost of inspection, transportation and insurance of offshore equipment/ materials.	ONGC had assumed full responsibility, now, on the expiry of 42nd day of the agreement.	The condition and usability of offshore equipment/material, thus, became the responsibility of ONGC rather than CEL. ONGC accepted the equipment/materials without verifying either their actual condition or the number required for the work under

[1] *The amount of 32 million USD includes 23 million USD paid to CEL and USD 9 million paid to income tax authorities towards tax liabilities.*

[2] *Such of the equipment/materials required to complete the project, whose possession CEL had not transferred to ONGC during the original contract period from November 2004 to June 2007.*

				the contract, though there was more than one year time available with ONGC to carry out physical verification. This was an additional benefit conferred upon CEL without assessment of cost on ONGC.

3.6.2.2 Additional financial liabilities assumed by ONGC in settlement agreement of December 2009

Audit attempted to ascertain the extent of additional financial liabilities (after taking into account the reduction of USD 0.7 million in the settlement sum) that ONGC had taken upon itself because of the benefits that were conferred upon CEL in the agreement of December 2009 which did not have the approval of the Board.

(i) ONGC had accepted (December 2009) that CEL would supply only specified equipment/materials as per the Settlement Agreement. As a result, three offshore equipment/materials♥ necessary to complete GS-15-1 deck fabrication were not supplied by CEL which had to be procured by ONGC at a cost of USD 3.46 million (₹ 16.11 crore).

(ii) ONGC had accepted (December 2009) to receive sub-sea equipment (SSE) from CEL on 'as is where is' basis according to the Settlement Agreement though warranty for the same had expired. CEL was to be responsible for the condition of these equipment according to the terms of settlement approved by the Board in October 2008. However, ONGC had to incur (over January 2011 to September 2012) an expenditure of USD 3.52 million (₹ 16.39 crore) on the work of refurbishment of SSE by the original equipment manufacturer (OEM). This was an additional liability that ONGC had taken upon itself which was beyond the terms of approval granted by the Board in October 2008.

3.6.2.3Additional expenditure resulting from un-favourable Settlement Agreement of December 2009

(i) The warranties on all materials/equipment had lapsed by the time ONGC had received them. ONGC decided (February 2010) that warranty for SSE was critical and approached the OEM (Cameron) for re-validation of the warranty clause. Being in an unenviable position vis-a-vis the vendor, ONGC agreed (September 2010) to bear the expenses on retrieval and transportation of defective SSE to OEM for repair or replacement even though this condition was a deviation from the standard practice. One of the components of SSE, Cameron Vertical Connector (CVC) failed in installation (March 2012) and ONGC (June 2013) had to incur an expenditure of USD 9.80 million (₹ 56.33 crore) on its retrieval and transport. CEL was responsible for offshore materials including CVC as per the settlement terms of September 2008 and could have been held responsible for the damage to the materials had the terms remained un-altered. By accepting this responsibility (as per settlement agreement of December 2009), ONGC was left in a disadvantageous position of having to negotiate with OEM on the latter's terms leading to an avoidable expenditure of USD 9.80 million (₹ 56.33 crore).

♥ ***Pressure relief valves, chemical injection skid and valves***

(ii) ONGC had also not verified the condition of SSE before accepting full responsibility for its components. Another component of SSE, namely Hydraulic Power Unit (HPU) failed during factory acceptance test (January 2011) and could not be installed on time. The installation could not be carried out in the 2012 season following detection of mechanical problem in CVCs (March 2012) and had to be rescheduled to 2013 season. The re-scheduling of installation led to derailment of project schedule and resulted in payment of escalation of USD 50.26 million (₹ 256.77 crore) to the concerned contractor (Subsea 7).

3.6.2.4 Avoidable payment of rentals USD 13.7 million (₹ 63.79 crore) towards rentals for TRT and IWOCS as a part of settlement sum paid to CEL

The settlement sum of USD 32 million (₹ 149.37 crore) paid to CEL included USD 13.7 million (₹ 63.79 crore) towards rentals for TRT and IWOCS, which was not payable by ONGC as the rentals for use of the tools (TRT and IWOCS) had already been paid to CEL as part of the payment for the work done by CEL till termination of the contract.

3.6.2.5 Overall, ONGC ended up

(i) incurring an additional expenditure of USD 6.28 million[♠] (₹ 29.24 crore) on purchase and refurbishment of offshore equipment/ material, after adjusting the reduction of USD 0.7 million (₹ 3.26 crore secured in the agreement of December 2009) without obtaining revised approval of the Board.

(ii) assuming additional financial liability of USD 60.06 million (USD 9.80 million in paragraph 3.6.2.3 (i) plus USD 50.26 million in paragraph 3.6.2.3 (ii) or ₹ 313.10 crore, by accepting responsibility of offshore equipment/ material without ascertaining its condition or usability.

(iii) incurring of avoidable expenditure USD 13.7 million (₹ 63.79 crore) towards rentals for TRT and IWOCS, as a part of settlement sum paid to CEL.

3.6.2.6 Thus, ONGC assumed additional financial liabilities of USD 80.04 million (₹ 406.13 crore) in settlement of the contract with CEL. Even accounting for the encashment of PBG (July 2008) amounting to USD 21.54 million (₹ 91.39 crore) received by ONGC, the net additional burden on the Company was USD 58.50 million (₹ 314.74 crore). More important, ONGC's objectives of completing the integrated project even by the revised date of April 2010 and realising revenues of around ₹ 1,500 crore per annum remained only on paper (January 2015).

3.6.3 Reply of ONGC

3.6.3.1 ONGC, in its reply, stated (January 2015) that:

(i) it did not feel the necessity of seeking separate approval or ratification of its Board as the details of negotiations and the settlement agreement of December 2009 were explained to the Board in its meeting of June 2010. It also stated that if it had

[♠] ***{USD 3.46 million (paragraph 2.2.1) plus USD 3.52 million (paragraph 2.2.2) minus USD 0.7 million reduction obtained in negotiation of December 2009}*** not resolved the disputes through mutually acceptable agreement, the entire project works would have had to be re-tendered and expenditure to the tune of ₹ 1,000 crore would have idled;

(ii) it consented to the proposal of CEL as it was a *'fait accompli'* situation since signing of the Settlement Agreement with CEL was crucial to restart the project work;

(iii) CEL was ready to give project materials only on 'as is where is' basis and not accepting this would have further delayed revival of the project. The usability or 'fit for use' status of equipment could be checked by the respective OEMs and that refurbishment could be taken up subsequently based on the recommendation of OEM. Joint inspection of inventory was carried out for all project equipment/materials lying outside India and that failure of certain equipment could not be predicted and was part of the risk which it had to take while arriving at a mutually acceptable settlement agreement with CEL. It had to accept Cameron's condition that the latter would not bear the cost of recovery, transportation and installation of SSE as the latter was OEM. It was not feasible for ONGC to check the quality of equipment/materials prior to signing the settlement agreement as most of the materials/equipment were lying with OEM; and

(iv) CEL had not agreed to joint inspection/verification of project equipment/materials. It insisted that ONGC should take the equipment/materials on 'as is where is' basis. Testing of the material would also have delayed the project. As far as rentals for tools, namely, TRT and IWOCs were concerned, ONGC stated that as the tools were in its custody for 221 days beyond the period provided in the terminated contract with CEL, it had paid USD 10.4 million. In addition, it paid USD 3.3 million to CEL as a part of negotiated settlement which was not attributable to rentals.

3.6.4 Comments on reply of ONGC

(i) The terms of settlement of December 2009 entailed huge additional liabilities and responsibilities on ONGC compared to the terms approved by the Board in October 2008. Agenda papers for the Board meeting of June 2010 did not highlight or seek approval or even ratification of the terms of settlement of December 2009 from the Board. The fact remains that the Board was not apprised of the implications and details of the terms of settlement reached with the approval of CMD in December 2009. The contention that investment in the project would have idled for want of settlement agreement needs to viewed in the light of the fact that the project was yet (January 2015) to be completed. The expenditure incurred by ONGC on the contract with CEL was, thus, irregular as it did not have the approval of its Board.

(ii) As far as the replies to the audit findings on the adverse financial implications of the terms of settlement of December 2009 are concerned, the fact remains that ONGC had agreed to the same without taking even preliminary precautions as it had restricted the joint verification exercise to only the number of packets and boxes (only for specified equipment/materials) without inspecting the equipment/materials contained therein. Thus, ONGC had taken the risk of additional liability towards quality and usability of equipment/materials without due diligence and went beyond the approved terms of settlement of October 2008.

(iii) Coming to the additional liability that ONGC had taken upon itself on account of accepting the equipment/materials on 'as is where is' basis, without ascertaining their usability and quality, ONGC had time available from October 2008 to December 2009 during which the status of critical equipment/materials could have been verified. As regards the payment of rentals (USD 10.4 million) for tools, namely TRT and IWOCs for additional 221 days, the fact remains that CEL had not resumed work beyond June 2006 even when repeatedly asked to do so by ONGC. Also, the tools had become unusable as these were damaged and lost on 'parting of riser'• (August 2006) due to rough seas when CEL personnel were not available for operating the tools. Moreover, rentals for TRT and IWOCS, were not payable by ONGC as the same had already been paid to CEL as part of the payment for the work done by CEL till termination of the contract. CEL had also got the benefit of additional amount of USD 3.3 million which, ONGC had admitted, was not on account of rentals.

Conclusion

By entering into a Settlement Agreement with CEL, without conducting due diligence, and whose terms and conditions were not approved by its Board, ONGC obtained a reduction of only USD 0.7 million while it ended up paying (i) a settlement sum USD 32 million (₹149.37 crore) to CEL for 'out of court' resolution of disputes with CEL, besides incurring additional expenditure of USD 66.34 million (₹ 342.34 crore) in deviation of terms approved by the Board in October 2008 for such a resolution. The assumption of additional financial liabilities (₹ 342.34 crore) was irregular as it did not have the approval of the Board and was not in the financial interests of ONGC. In addition, ONGC incurred an avoidable expenditure of USD 13.7 million (₹ 63.79 crore) on payment of rental for tools which had been paid to CEL under the already terminated contract. The project for development of the oil and gas fields remained incomplete (January 2015) as against the revised target date of April 2010 while projected revenues of ₹ 1,500 crore per annum remained unrealised.

The matter was reported to the Ministry (March 2015); their reply was awaited (March 2015).

3.7 Follow-up IT Audit of implementation of Material Management module in Oil and Natural Gas Corporation Limited

3.7.1 Introduction

In October 2003, Oil and Natural Gas Corporation Limited (Company) implemented enterprise resource planning (ERP) package, the SAP-mySAP Financials and Logistics, under the project Information Consolidation for Efficiency (ICE) incorporating all ten

• ***Riser: It is a conduit that provides a temporary extension of a sub-sea well to a surface drilling facility.***

modules[1] along with mySAP Oil & Gas Upstream Solutions. ICE went live across the organization between October 2003 and January 2005[2].

The implementation of Material Management (MM) module in the ERP System of the Company was reviewed by Audit during 2005-06 and the audit findings were reported in Chapter VI of C&AG's Audit Report No.10 of 2007. Audit had also made a set of recommendations based on the audit findings and the Company had assured corrective action to address these concerns.

A follow-up audit of the present status of implementation of MM module of ERP package in the Company was taken up to review the action taken by the Company's Management on the audit recommendations made in the chapter VI of the Audit Report no. 10 of 2007. The implementation of the MM module was reviewed for the period April 2011 to March 2014.

3.7.2 Audit Methodology and limitations

The methodology adopted during audit was as below:

- Discussion with the Company, correspondences and questionnaire issued to the management and its feedback.
- Data extraction using the standard and in-house Reports and analysis thereof using MS EXCEL/MS ACCESS.

The limitations faced by Audit were:

- Audit Information System (AIS), an auditing tool configured within SAP and designed for facilitating business and system audits was not implemented.
- Access to SAP Query and SAP Data Browser was not available.

3.7.3 Audit Findings

The follow up audit findings are discussed in subsequent paragraphs:

3.7.3.1 Recommendation 1 - Strengthening input controls, validation controls and internal control procedures to ensure accurate and timely capture of data

Analysis during the follow-up audit revealed that data inconsistencies resulting from inadequacy of input controls, validation controls, internal control procedures as observed in the past audit *continued to exist* as brought out below:

(a) Purchase Order with wrong valuation type

Split Valuation Procedure (SVP) was configured in the ERP System for stores and spares items where separate weighted average cost was maintained for each 'material type'

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[1] ***Financial (FI), Controlling (CO), Material Management (MM), Plant Maintenance (PM), Project Systems (PS), Investment Management (IM), Asset Management (AM), Treasury (FM), Sales & Distribution (SD), Business Information Warehouse (BW).***

[2] ***Initially, SAP version 4.6C was installed on HP UNIX operating system and platforms with Oracle database management system to store data in SAP which was upgraded to ERP 6.0 in 2009 with Oracle 10g as data base.***

based on corresponding 'valuation types' configured in the System. It was commented in para 6.7.1.1 of Chapter VI of Report No.10 of 2007 of the Comptroller and Auditor General of India (C&AG) that the inadequacy of input controls resulted in wrong entries of 'valuation type' of material in purchase orders (POs), leading to incorrect material accounting, lack of data integrity and incorrect MIS.

The Company had stated (November 2007) that a validation would be put in the System to ensure that POs on indigenous vendors do not accept valuation types for imported materials and vice versa.

Analysis in the follow up audit, however, revealed that 47 POs for 371 items valuing ₹ 7.45 crore were posted during 2011-14, in which the 'valuation type' of material was inconsistent with the PO types i.e. the valuation types relevant for imported PO were entered in case of indigenous PO and vice versa (**Annexure-III**).

The Company replied (March 2015) that the valuation type entered in all the 47 POs was correct except in case of one PO; however, while creating these POs, error in entering the "document type" led to creation of an indigenous PO instead of an imported PO and vice-versa.

This implies that validation to ensure that POs on indigenous vendors do not accept valuation types for imported materials and vice versa had not been put in place to prevent such errors yet, though it had been assured by the Company in November 2007.

(b) Delivery date in Purchase Order

The entry of correct scheduled delivery dates for materials in the ERP System as per the terms and conditions of relevant PO was vital to monitor the supply of materials against requirement, performance of the vendors and the completion of POs.

It was commented in para 6.7.1.3 of Chapter VI of C&AG's Audit Report No.10 of 2007 that no input controls were in place for entering the scheduled delivery date of material in the POs and that the scheduled delivery dates were prior to the date of the PO in certain cases. It was further observed that the date of actual delivery of the supplies was not being captured in the System.

The Company had stated (November 2007) that the scheduled date of delivery depended upon the delivery period quoted by vendor and it was not possible to put any validation in the System for that. The actual date of delivery was proposed to be captured through manual entry by purchase officers in a report developed for the purpose.

During follow up audit it was observed that the date of actual delivery of the supplies was being captured in the System through an in-house developed programme. However, test check[♥] revealed that 48 POs for 159 items had been created with scheduled delivery dates prior to the PO dates by a period ranging from 2 to 614 days. Thus, incorrect scheduled delivery dates in the POs continue to be entered. It was further observed that POs with

[♥] ***POs released during 2011-14 with actual delivery of materials incomplete as of September 2014 and February 2015.***

future 'document dates'[♣] also existed in the System indicating deficient input controls/validation checks **(Annexure-IV)**.

Due to incorrect capturing of the scheduled delivery date, the MIS data on procurement and execution of PO could not be correctly generated, liquidated damages continued to be worked out manually and the inbuilt reminder feature in the SAP for issuing automatic reminders in case of delays in delivery could not be used.

The Company replied (March 2015) that validation for delivery date could not be implemented because in certain situations like Board purchase and urgent procurements PO had to be placed for regularization after materials are delivered. The Company also stated that liquidated damages are partly subjective in nature and are required to be worked out manually based on the PO and the contract conditions. As regards 'document dates', it stated that system modification to default the date of creation of PO as the document date to avoid such discrepancies shall be examined.

Contention of the Company that the anomaly in PO dates was to regularize emergency purchases was not acceptable. The analysis of Audit was based on POs in 2011-14 with incomplete delivery as of September 2014/February 2015, hence, these could not be cases of regularization of materials already received. Further, the requirement in case of emergency/regularization cases can be taken care of as exception while putting in place the validation for delivery dates in POs.

(c) Non clearance of Stock in Transfer

Stock Transport Orders (STOs) are created for internal transfer of material. A Goods Issue document posted by the issuing store was to be complemented by a Goods Receipt document by the receiving store to complete the documentation, pending which the material transfers remain as 'stock in transfer' under inventories.

It was commented in para 6.7.1.5 of Chapter VI of C&AG's Audit Report No.10 of 2007 that there were instances of delayed posting and non-posting of Goods Receipt documents in respect of internal transfer of goods resulting in accumulation of large balances in 'Stock in transfer' indicating lack of internal controls in ensuring timely capture of all the stocks received in the System. It had also been observed that there were cases of stock transfers where the items were included as 'Stock in transfer' in the System even though the transferred materials had already been posted as consumed in financial records.

The Company had stated (November 2007) that a validation would be put in the System to disallow further STOs where material remained in transit for more than two months and where the available stock at site was more than two months average consumption.

The follow up audit indicated that, stock transfers for 68,904 items worth ₹ 75.77 crore were found lying un-cleared (August 2014) for over six months with the period of non-clearance of stock transfers ranging up to more than ten years (**Annexure-V**). Analysis of the Goods Issue documents remaining in transit as of August 2014 further revealed that

[♣] ***Document date denotes the date of creation of PO.***

89 cases valuing ₹ 0.82 crore which were included as ‘Stock in transfer’ in the System, had already been posted as consumed in financial records.

The Company replied (March 2015) that validation was already in place in the system to stop further procurement if stock in hand was more than twice of maximum consumption during last four years. The stock in hand figure was derived after including stock transfer out documents lying un-cleared with the indentors, thereby systematically compelling the indentors to clear the stock transfers. As to the 89 cases pointed out by audit, it was stated that 87 of these cases had been settled.

The reply is not acceptable as the stated validation had not been effective to ensure timely clearance of Stock Transfers. Further, the corrective action had not been taken to check instances of material remaining as ‘Stock in Transfer’ even though consumption had been posted.

(d) Physical Verification Process

Physical verification of fixed assets was conducted by stock verification teams, annually for ‘A’ and ‘B’ category assets and every third year by rotation for ‘C’ category assets. The availability status on verification of each asset was updated in the System and a discrepancy report was sent to the indentors to confirm/ reconcile/ locate the discrepant assets for updating in the System. The physical verification policy also provides for perpetual verification of stores, spares and capital items on stock (CIOS) based upon the category of the material whereby the CIOS are verified annually and ‘A’, ‘B’ and ‘C’ category stores and spares are verified annually, biennially and triennially respectively.

It was commented in para 6.7.5 of Chapter VI of C&AG’s Audit Report No.10 of 2007 that physical verification of assets, CIOS and stores and spares was not being conducted regularly and completely. Further, large number of discrepancies in stock verification of assets was outstanding for want of final settlement without any age analysis.

The Company had stated (January 2009/June 2010) that effort would be made to get the inventory verified regularly and age analysis of discrepancies in stock verification would be incorporated in the System.

Analysis in follow-up audit revealed as under:

(i) Physical Verification of Assets and Stores and Spares

Physical verification of assets was not being conducted as per the prescribed frequency. Analysis of assets having gross book value over ₹ One lakh each in February 2015 revealed that 4,052 assets (₹ 391.62 crore) out of 81564 assets (₹ 99,238.49 crore) had been last verified during 1992-2013 **(Annexures VI, VII and VIII).** It was further observed that last inventory date in respect of 4,918 items (₹ 2,864.14 crore) was not available in the System and 3055 assets (₹ 164.08 crore) having gross book value over ₹ One lakh each were in deficit. Further, 417 real estate assets viz. land, buildings, godowns, warehouses, workshops, helipads, bunk houses, roads, walls, canteens, bungalows, drill sites, sheds, garages, etc. were being shown as in deficit in the System. In respect of stores, spares and capital items on stock (CIOS), there were shortfalls ranging from 43 to 86 *per cent* in verification at various locations during 2011-14 (**Annexure-IX**).

The Company replied (March 2015) that many of these Assets were uploaded in the ICE system from the erstwhile legacy data without verification, these are appearing as 'deficit' and all units are being advised to identify and take action for reconciliation of such items. Further, a Real Estate module had been created in ICE to upload Real Estate Assets of the Company with supporting documentation duly reconciled with the Asset Master; once the exercise of mapping and uploading was completed, it was expected that gaps as had been pointed out by Audit will be minimized.

The reply does not explain why the legacy data uploaded as early as in 2003 could not be reconciled even after more than ten years.

(ii) Age Analysis of Deficient Assets

Age analysis of all discrepant assets (on 26 September 2014) revealed that 15,525 items (₹ 221.69 crore) were in deficit for periods ranging up to more than twenty years (**Annexure-X**). It was further observed that whereas the 'date since when an asset was in deficit' could not be later than its last verification date, in case of 919 assets (₹ 15.24 crore), the date of deficit was later than the last inventory dates in Asset Master by up to more than five years (**Annexure-XI**). Further, 1,355 items (₹ 14.61 crore) were reported to be in deficit since their capitalization date.

Thus, the System had not been configured with necessary data input controls leading to incorrect MIS and non-achievement of the organizational objectives attached with the physical verification process.

The Company stated (March 2015) that data for most of the assets which had been deficit for very long periods was migrated to the SAP system from erstwhile legacy data without complete verification. It further stated that the program to update the status of Asset (deficit/Available/surplus), based on Asset verification, was usually run on or after the verification date; this date was captured as the reporting date and there was always a possibility that date of deficit reporting was later than last inventory date.

The reply needs to be viewed in the context that the legacy data had been uploaded in the System in 2003 and it should have been reconciled by now. Further, though the program to update the verification status might be run on after the verification date, but the same could not be five years later than the verification date.

(iii) Reconciliation of discrepant Assets

A capital indentor was authorized in every section to get the assets issued to the ultimate users called custodians of the assets for custody and maintenance of fixed assets. In case of separation/retirement/transfer, the indentors must transfer the assets in the name of the employee taking over the role in their place before relinquishing charge.

Analysis of the indentor details of 14,502 deficit assets (on 02 September 2014) revealed that 984 deficit assets (₹ 11.79 crore) were in the name of 51 indentors who were no longer in the service with the Company, 1,669 deficit assets (₹ 30.21 crore) were with 118 indentors who were no longer working at the place of location of assets, having been transferred long back with period ranging back up to October 2001, 7,200 deficit assets (₹ 75.34 crore) were with 365 dummy indentors and 2,165 deficit assets (₹ 40.31 crore) were with 126 indentors in respect of whom details of current status of service/ posting were not available from the reports generated from Human Resource (HR) master data[1].

The Company replied (March 2015) that Asset Custodian Reports in WEBICE (in-house portal for employees) and another report (ZHRCAPREPO) in SAP are already available to view the assets that are in the custody of the employee. Further, a new functionality in the system was under development to transfer/hand over asset to new indentor at the time of transfer or separation of the existing indentor.

The reply was not acceptable as no procedures had been put in place by using the already available reports to ensure compliance of business process for handing over of assets.

(iv) Discrepancies in In-house developed Reports

In-house reports had been developed by ICE team for generating the MIS data on *age analysis of discrepant assets*[2] as well as *category and indentor wise asset verification status summary*[3]. Comparative analysis of the two reports (on 26 September 2014) revealed that the number and gross book value of 'A', 'B' and 'C' category of assets in deficit in the two reports was not tallying with each other (**Annexure-XII**) leading to incomplete MIS and erroneous reporting.

3.7.3.2 Recommendation 2 - Strengthening the role of the MRP controller through the system and optimizing system use by fixing minimum, maximum and reorder levels

The SAP had Material Requirements Planning (MRP) feature through which minimum, maximum, safety and re-order stock levels for various items of materials can be defined to ensure their continued availability when needed as also to ensure that funds are not unnecessarily tied up in excess inventory holding. The MRP functionality can be utilized to generate a PR for procurement whenever the stock level of material reaches its re-order level.

It was commented in para 6.7.2.1 of Chapter VI of C&AG's Audit Report No.10 of 2007 that the stock holding was not in consonance with the actual requirement or consumption. Further, cases were observed where capital items were lying unused in stores for long periods whereas the same were required to be issued to the users immediately on their receipt.

The Company stated (January 2009/ June 2010) that automatic MRP controller could not be made applicable for the Company because of varied requirement of highly technical nature which depended upon the work plan. However, the feasibility of fixing various levels for items of regular consumption and of general nature was being examined.

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[1]***SAP T-Codes - ZHR_EMPHIST and ZHREMP_DETAILS***
[2]***SAP T-Code - ZFIAMDFCT***
[3]***SAP T-Code - ZFIVERIABC***

It was observed that the maximum, minimum, safety and reorder levels of inventory holding had not been fixed and despite implementation of the ERP System, material requirement planning was being carried out manually which remained subjective.

(a) Store Items

Analysis of inventory holding vis-à-vis consumption of 12956 store items having average stock value of ₹ 732.41 crore spread over 15 drilling plants♥ during 2011-14 revealed 536 store items spread over 14 plants with 'nil' consumption where the average stock value (₹ 73.32 crore) exceeded ₹ One lakh each. There was no stock movement in 364 of these items of average stock value of ₹ 42.34 crore and there were 149 store items spread over 14 drilling plants where average inventory holding showed overall increase of more than ten times over 2011-14 with material valuing ₹ 16.24 crore having been purchased afresh despite 'nil' consumption.

The Company replied (March 2015) that a validation to stop further procurement if stock was more than two times/1.6 times of maximum consumption during last four years in case of stores/ spares items respectively was already in place.

The reply was not acceptable as the stated validation was of universal nature and could not substitute for MRP control through the optimization of system by fixing itemized minimum, maximum and reorder levels, as was illustrated from the fact that in case of 149 store items the average inventory holding showed overall increase of more than ten times with material valuing ₹ 16.24 crore having been purchased afresh despite 'nil' consumption.

(b) Capital Stores

While capital items are to be issued to the concerned indentor soon after receipt, 1,132 capital items valuing ₹ 44.28 crore were lying in stores awaiting issue from a period ranging up to more than ten years (**Annexure-XIII**).

The Company replied (March 2015) that necessary guidelines on receipt and issue of capital items had already been issued in October 1996, nevertheless, instructions are being re-iterated to regularize/liquidate CIOS items at the earliest.

3.7.3.3 Recommendation 3 - Cleaning of migrated master data to rectify the errors that had crept into the ERP system and establishing comprehensive procedures for periodical review of master data

While implementing SAP ERP System in 2003, the existing data from the erstwhile 'Integrated Materials Management System' (IMMS) was migrated wherein certain gaps relating to incomplete codification details in the material master data migration processes run by the organization were observed and commented in para 6.7.4 of Chapter VI of C&AG's Audit Report No.10 of 2007.

♥ ***Agartala, Ahmedabad, Ankleshwar, Baroda, Cambay, Dehradun, Jodhpur, Jorhat, Karaikal, Kolkata, Mehsana, Mumbai, Nazira, Rajahmundry, and Silchar***

The Company had informed (November 2007) about cleaning of material master data whereby materials with duplicate codes without complete details were blocked for further procurement leading to correction of material master data.

During the follow up audit, the errors in the migrated master data pointed out by audit in para 6.7.4 of Chapter VI of C&AG's Audit Report No.10 of 2007 were found rectified.

3.7.3.4 Recommendation 4 - Organizing regular training programmes to raise the level of user awareness and minimize errors of data input and making available updated operational documentation to the end users

Analysis of data and information during the follow-up audit revealed that the data inconsistencies resulting from lack of user awareness and errors in data input as observed in the past audit continued to exist indicating inadequacy of action taken by the Company to raise the level of user awareness as brought out below:

(a) Creation of fresh purchase requisition with earlier requisitions pending

A Purchase Requisition (PR) in the System was the trigger for procurement activity and was the primary document created in the procurement process which shows the genuineness of requirement and indicates administrative approval/sanction for procurement.

It was commented in para 6.7.1.4 of Chapter VI of C&AG's Audit Report No.10 of 2007 that on one hand PRs were pending in the System without either any procurement action or closure for long time, on the other hand, fresh PRs for some of those items were also created and procurement action taken thereon.

The Company had informed (November 2007) about creation of a transaction code for deletion of unedited PRs and training of MRP controllers for not releasing fresh PRs if a requisition for the same material already existed in the System.

Analysis in follow up audit revealed that 12,774 PRs for 34,279 items with delivery dates prior to 31 March 2011 were pending in the System as of September 2014 without any procurement action or closure. Further analysis in four Plants♠ revealed that while on one hand 173 such PRs of 2008-11 for 997 items were lying without any action, on the other hand 43 fresh PRs for 45 of these items were also created and processed during 2011-14 (**Annexure-XIV**).

The Company replied (March 2015) that functionality for deletion of such PRs had already been made available and a circular had been issued for advising deletion of such PRs where procurement action was not required.

(b) Delay in recording material consumption

Consumption booking of materials was an important process in materials management as materials issued to users from stores remain part of the inventory till actual use in operations. On actual consumption, an entry was required to be made in the System so

♠ ***Ankleshwar Asset, Ahmedabad Asset, Corporate Services Dehradun and Drilling Services Mumbai*** that it was removed from inventory and its costing takes place in the accounting/financial information.

It was commented in para 6.7.1.6 of Chapter VI of C&AG's Audit Report No.10 of 2007 that the material consumption was not being captured in the System in a timely manner leading to mismatch between the actual physical stock available and the inventory figures appearing in the System and resulting in accounting of material consumption in the incorrect period thereby distorting the accounting/ financial figures.

The Company had stated (November 2007) that a validation would be put in the System to ensure timely booking of the consumption.

Analysis in follow up audit revealed that in 102 exploratory wells completed during 2012-13, materials valuing ₹ 143.39 crore were posted as consumed with delays ranging up to 690 days after the well completion dates (**Annexure-XV**) of which the material valuing ₹ 133.98 crore was of the nature consumed during drilling process (**Annexure-XVI**). Further, material valuing ₹ 18.26 crore consumed prior to 31 March 2013 was booked to consumption during 2013-14.

The Company replied (March 2015) that instructions are issued for booking consumption in time and close the pending STOs. Further, all work centers are informed of their material at site and material in transit on a regular basis for its liquidation through booking of consumption.

(c) Open Purchase Orders with balance quantities

When the delivered quantity of the material was marginally less than the ordered quantity and the balance quantity was not expected, the PO needs to be closed as completed in the System to free the funds attached with balance quantity for utilization elsewhere.

It was commented in para 6.7.2.3 of Chapter VI of C&AG's Audit Report No.10 of 2007 that the System had neither been configured to close or trigger closing of such POs nor were such POs being reviewed periodically for closure.

The Company had stated (November 2007) that instructions had been issued to Purchase Officers to regularly review such POs.

However, analysis of open POs with delivery date prior to 31 March 2014 and residual quantity of less than 10 *per cent* of the ordered quantity as in August 2014 revealed that 557 POs of this nature involving funds of ₹ 12.87 crore attached with the residual quantities were yet to be closed (**Annexure-XVII**).

The Company replied (March 2015) that though the System was configured to close such POs automatically but the tolerance limit had been set at zero *per cent* because it was felt that closure of such POs should be deliberate and not automatic.

The reply of the Company was not acceptable as appropriate procedures to ensure timely manual closing of such POs should have been put in place as continuation of such open POs resulted in blockade of funds on residual quantity.

Conclusion

The follow up audit indicates that despite the passage of significant time (over eight years) since the earlier audit, input controls, validation checks, compensating internal control procedures and user awareness deficits pointed out in the last audit had not been adequately addressed to ensure accurate and timely capture of data. Of the four recommendations made in the last audit report, action had been taken on only one, despite assurances of the Company for appropriate action as early as 2007-08.

The matter was reported to the Ministry in March 2015; their reply was awaited (March 2015).

3.8 Under-utilization of Water Injection Platform despite revamping

Water Injection platform (WIN) commissioned in 1984 is the main water injection hub in Mumbai High North field of Oil and Natural Gas Corporation Limited (Company). Non-synchronization of WIN revamping project with repair/ replacement of its associated pipelines and delay in overhauling of Main Injection Pumps led to non-achievement of the designed water injection capacity even after incurring an expenditure of ₹ 726.50 crore.

Water injection is the methodology used for better reservoir management to sustain production from a matured field. WIN Platform of Oil and Natural Gas Corporation Limited (Company) was commissioned in 1984 and is the main water injection hub in its Mumbai High North (MHN) field with water injection capacity of 340000 barrels water per day (BWPD). Due to ageing, harsh saline environment, the condition of several systems and main equipment of this major complex deteriorated and leakages developed in pipelines (WIN-WI3, NR-N7 and N8-NQO). Resultantly, the operational capacity of WIN Platform got reduced to 2,90,000 BWPD by March 2008 and the Platform was not able to meet the increasing demand of water injection for reservoirs of MHN field. Hence, the Company felt (March 2008) the need of revamping of water injection facilities on WIN Platform, repair of the pipelines and repair/ replacement for better reservoir management and also to increase the recovery factor from the ageing fields.

In May 2008, the Company approved revamping of WIN platform envisaging average peak water injection at 3,12,720 BWPD. Revamping job broadly included revamping of motors of Main Injection Pumps (MIPs) and other associated equipment/components, control system *etc.* The revamping project was awarded (February 2011) to a consortium of M/s Leighton Contractors (India) Private Limited, Mumbai and M/s. Das Offshore Engineering Private Limited, Navi Mumbai at a cost of US$ 141.24 million (₹ 726.50 crore). The project for revamping of WIN platform was completed in July 2012.

Audit observed that:

- Output from WIN platform declined after revamp instead of targeted improvement. The pre-project operating rate of WIN platform (March 2008) was 2,90,000 BWPD while the post project operating rate (August 2012) was only 2,38,767 BWPD. The performance, however, slightly improved to 2,52,407 BWPD by November 2014. The envisaged improvement in performance

(3,12,720 BWPD) had not been achieved so far (January 2015). In fact, an analysis of the month-wise information from August 2012 to November 2014 revealed that the facility had never reached even the pre-project performance of 2,90,000 BWPD.

- At the time of approval of the project (May 2008), the Company was aware that three pipelines connecting WIN and WI3 platforms (WIN-WI3 pipeline), NR and NR-7 platforms (NR-N7 pipeline) and N8 and NQO platforms (N8-NOQ pipeline) associated with WIN platform for water injection were leaking. However, the Company carried out replacement of WIN-WI3 pipeline in February 2011, and a partial replacement of damaged section of NR-N7 in April 2014. The third pipeline (N8-NQO) had not been repaired/replaced as yet (January 2015).

Thus, non-synchronization of revamping of WIN project with the requisite repair/ replacement of its associated pipelines, shortage of water injectors (WIs) and delay in overhauling of MIPs without planning the remedial action in a holistic manner led to non-achievement of the designed water injection capacity of the platform even after incurring an expenditure of ₹ 726.50 crore.

The Company replied (January 2013) that in WIN Project, the shortfall was on account of leakages in water injection lines *viz.* WI3-WI2, NR-N7 and WIN-NQO. As a result, fourth MIP with a capacity of 90,330 BWPD was not available for water injection. The Management also attributed the issue to shortfall of WIs and stated that overhauling of the fourth MIP would increase the water injection capacity of WIN platform.

Reply of the Company needs to be considered in the light of the tardy and inefficient action as stated below:

- Problems had been experienced in the water injection lines of the WIN platform as early as 2008. Though repairs of the pipelines had been envisaged at the time of seeking approval for revamping of WIN platform (May 2008), and the pipelines had outlived their lives, completion and synchronisation of this activity was not ensured with the completion of revamping of WIN platform. Leakages in the pipelines were being repaired as and when detected.
- Along with the envisaged revamp of the WIN platform, proper functioning of the water injection pipelines was essential for attaining its targeted capacity. As per pipeline replacement policy of the Company, the life of water injection pipeline is 15 years from the date of commissioning. Water injection pipelines associated with WIN platform were also commissioned with the commissioning of the platform in 1984 and, hence, ought to have been replaced after 15 years as per the pipeline replacement criteria decided in October 2003.
- Though the Company had included replacement of pipeline connecting NR and N7 platform in the Pipeline Replacement Project (PRP) (2008-11), NR-N7 had not been taken up for full replacement as yet (January 2015). This also resulted in non-achievement of the water injection targets. Pipeline for WIN-NQO was neither repaired nor included in PRP project though there was continuous leakage from the pipeline.

- The MIPs were as old as the WIN platform. Overhauling of two MIPs was completed during December 2012 to January 2013 and that of the remaining two was pending till January 2015. This also impacted the water injection and non-achievement of the designed capacity.

The matter was reported to the Ministry in February 2014; their reply was awaited (March 2015).

3.9 Avoidable expenditure due to change in scope of work after the award of contract and interface problems among the constituent projects

Oil and Natural Gas Corporation Limited (Company) altered the scope of reconstruction/revamping of an oil complex (*viz.* SHPC) subsequent to its award to the Contractor which led to delay in completion of the project and avoidable expenditure of ₹ 32.29 crore. Also, interface issues not visualized by the Company for execution of reconstruction/modification of another oil complex (*viz.* NQPC) led to delays and avoidable expenditure of ₹ 55.30 crore.

Among others, South Heera Process Complex (SHP Complex) and NQ Process Complex (NQP Complex) of Oil and Natural Gas Corporation Limited (Company) are two of the oldest oil complexes located in Mumbai High field off the west coast of India. SHP Complex comprised five platforms *viz.* SHQ, SHP and SHD commissioned in 1984, and SHG, SHW commissioned in 1994. Similarly, NQP Complex comprised four platforms *viz.* NQO and NQD commissioned in 1985, NQG in 1986 and NQP in 1994.

Due to aging and saline environment, condition of some of the systems and equipment installed at these Complexes/platforms deteriorated resulting in increase in maintenance related problems. Accordingly, the Company decided for a major revamp/reconstruction of these Complexes/platforms and associated facilities. As these oil complexes were brown-fields, their revamping required shutdown of the live platforms. A thorough study and planning prior to award of work was needed so as to avoid delay and extra cost in execution of work. Examination in audit revealed the following:

A. Revamp of SHP Complex

The Company awarded (March 2005) the work (SHRC project) of revamping of SHP Complex to M/s Larson and Toubro (Contractor) for ₹ 185.37 crore for completion by 30 April 2006. The scope of work included revamping of fire and gas system, replacement of main oil line pumps, raising level of helideck on one of the platforms (SHQ), installation of Walkway Bridge and installation/commissioning of distributed control system.

Audit observed that the Company had awarded the project on the basis of a design and drawings prepared on the basis of 25 years old documents/drawings available with it and, thus, in the absence of drawings updated with reference to modifications carried out in the intervening period, the drawings handed over to the Contractor had to be changed during execution of the project. The project was finally completed on 29 May 2008 with a delay of 2 years.

The Company attributed the delay to the Contractor on account of repetitive surveys, incomplete drawing, delay in procurement of equipment and mobilisation of marine spread. The Contractor, however, refuted the Company's arguments and claimed that the delay was due to (a) modification in scope of work after award of the contract; (b) delay in approval of engineering drawings, (c) shut down of SHP complex not allowed as per schedule; (d) delays and denial in issuing and adapting to the mode of working of the other permits; (e) denial of access to worksite and (f) consequent standby/idling of barge. The Contractor claimed ₹ 85.48 crore on these counts.

The Contractor referred the claim to an Outside Expert Committee[♣] (OEC) on 18 September 2009. Based on recommendation (11 November 2010) of OEC, the Company paid (17 October 2011) an additional amount of ₹ 28.31 crore to the Contractor.

As the platform was not shut down and not made available to the Contractor for 14 days in season 2005-06, the Contractor had to deploy its barge for additional days and incurred additional expenditure. Claim (₹ 23.62 crore) of the Contractor on this account was paid (October 2011) by the Company to the extent of ₹ 3.98 crore on the recommendation OEC.

Audit observed that scope of the work was not determined clearly by the Company before award of the project to the Contractor and, *inter alia*, it proposed alterations subsequent to award of the project which led to delays and avoidable expenditure of ₹ 32.29 crore during execution of the project.

B. Revamp of NQP Complex

The work of reconstruction of NQP Complex was awarded to the same Contractor as in 'A' above for US$ 76.79 million + ₹ 561.71 crore in June 2007 to be completed by 08 May 2009.

During execution of the project, three constituent projects (*viz.* NQ-RC, NQD-Revamp and PRP-II) of revamping were being concurrently executed at NQP Complex by different contractors which necessitated multiple barge deployment. Progress of work on all the three projects encountered interface issues which were not anticipated by the Company before award of all the three projects simultaneously. As a result, the Company could provide only intermittent access to the barges which hindered the timely completion of the project. The interface problems among the constituent projects led to extension in barge deployment upto 150.6 barge days by the Contractor. The Contractor claimed US$ 18.825 million (₹ 84.71 crore)[♦] for the additional days. Claim of the contractor on this account was referred (11 March 2010) to an Outside Expert Committee (OEC). OEC found the Company responsible for the delay of 90.4 barge days. Accordingly, the Company admitted the claim of the Contractor for US$ 11.3 million (₹50.85 crore). Further, OEC also observed (27 April 2011) that deployment of cargo barge for another 30.9 barge days was also attributable to the Company. This led to an additional

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[♣] ***OEC- A mechanism adopted by the Company to resolve disputes between the contractor and the Company.***

[♦] ***For 150.6 barge days @ US$ 125,000 per barge day. 1USD = INR 45.***

expenditure of US$ 0.99 million (₹ 4.45 crore). Thus, on the recommendation of OEC, the Company accepted the contractor's claim of ₹ 55.30 crore.

Thus, interface problem not visualized by the Company before award of project led to delays and avoidable expenditure of ₹ 55.30 crore.

The Management stated (January 2013) that OEC had taken a broad overall view and recommended the claim. OEC's recommendations were accepted by the Company with a view to settle disputes amicably in a time bound manner.

Reply is not convincing. OEC had not admitted the claims of the Contractor in totality and as per its judgement awarded the claim in favour of the Contractor to the extent the additional cost was attributable to the Company. Audit has considered only such parts of the claims as were recommended by OEM and were accepted by the Company.

The matter was reported to the Ministry in February 2014; their reply was awaited (March 2015).

3.10 Extra expenditure due to retendering at the instance of a technically disqualified bidder

Oil and Natural Gas Corporation Limited awarded a tender for two projects – (i) Redevelopment of Heera and South Heera Phase II and (ii) Advancement of development of phase III of C-series cluster to the lowest bidder *viz.* 'A'. On representation by a technically disqualified bidder viz. 'B', negotiations were held with party 'A'. On refusal by 'A' to agree to the terms of negotiation, the work was re-tendered resulting in additional expenditure of ₹ 19.45 crore.

Oil and Natural Gas Corporation Limited (the Company) approved (March 2012) 'Heera Redevelopment Phase II pipeline project'. In the same meeting, the Company also approved 'Advancement of development of Phase III of C-series cluster'. A common tender for procurement of pipelines for both the projects was floated in May 2012 with the scheduled placement of Notification of Award (NOA) by 29 October 2012 and scheduled completion of the project by 30 April 2014. Six bidders submitted (September 2012) their bids of which five were found (December 2012) technically acceptable. The bid of a party 'B' was technically not accepted as the party did not fulfill the requisite experience criteria. Party 'B' represented (December 2012) against this decision to ONGC which was turned down.

The Company opened the price bids of five technically qualified bidders on 1 January 2013 and found the bid of party 'A' for USD 190.24 million[1] to be the lowest. Party 'B' again represented (December 2012) to Independent External Monitors (IEM)[2] stating that it had been subjected to discriminatory and unreasonable treatment by the Company. IEM concluded that the Party 'B''s reply to

[1] *The quoted price for the portion of Heera Redevelopment Pipeline Project was USD 98.67 million.*

[2] *This is an internal arrangement devised by the Company consisting of 1 to 3 members from a panel of senior government officials to resolve disputes relating to bid evaluation, awarding of contract etc. Observations of IEM are recommendatory in nature. (Source: ONGC's presentation in 'Business Partners' Meet held on 20 and 21 July 2013.*

the Company's request for clarification was factually incorrect and that the party had claimed experience for installation of pipeline works without possessing it. Party 'B' again addressed (January 2013) a letter to the Company stating that its bid was lower by USD 21 million than the lowest offer received in the price bids. IEM decided (January 2013) that as they had concluded the proceedings on the representation of Party 'B' and the bid of Party 'B' was rejected on technical grounds, the price bid remained un-opened by the Company and, therefore, it could not take any view on an un-opened bid.

Tender Committee (TC) decided (January 2013) that as the price bids of only techno-commercially acceptable tenders were opened and considered for further evaluation, the disclosure of prices by a bidder whose offer was technically rejected could not be given any cognizance. It recommended the award of the work to Party 'A' at the quoted lump sum price of USD 190.24 million•. The Executive Purchase Committee (EPC) while reviewing the recommendation of TC, noted (February 2013) that as the revealed price of Party 'B' was substantially lower than the prices quoted by Party 'A', negotiations should be held with Party 'A' to match its price to the revealed price of Party 'B'. Party 'A' refused (February 2013) to match its price with the revealed price of Party 'B' and requested for placement of order without any further delay.

Subsequently in February 2013, TC, which had earlier opined that the price quoted by a technically disqualified bidder ought not to be recognized, recommended rejection of the bid of Party 'A', closure of the tender and re-tendering. EPC accepted (March 2013) the recommendations of TC. As the pipeline work of Heera Re-development Phase II Project had to be finalized on fast track basis, EPC also suggested that it be tendered separately.

Tenders for Heera Re-development Phase II Pipeline Project were floated in March 2013 and the work was awarded (April 2013) to a Mumbai based Party 'C', being the lowest bidder on evaluation of bids in the tendering process, at USD 102.22 million as against quote of USD 98.67 million (as worked out by the Company on like to like basis) of Party 'A' in the last tender. The scheduled date of completion was 15 May 2014.

Audit observed the following:

- The work has been delayed and the contract has already been extended up to 15 May 2015 due to non-availability of free issue material to be supplied by the Company to the contractor.

- The bid of Party 'B' being technically un-acceptable, its price bid had not been opened as per the two bid bidding process mandated in Material Management Manual of the Company. The revealed price of Party 'B' should, therefore, not have been considered. Despite this, the Company asked Party 'A' to match its bid to the revealed price of Party 'B'. Since Party 'A' refused

• ***Including USD 98.67 million for Heera project as worked out by the Company.***

to oblige, the tender was cancelled. Re-tendering led to a higher price than the price achieved in the earlier tender.

- Notification of Award (NOA) scheduled to be placed in October 2012 was extended to November 2012 and then to January 2013 and finally planned in March 2013. This significantly reduced the project completion time from 18 months as originally envisaged to 14 months. Party 'A' did not unconditionally accept the extension of NOA beyond 21 February 2013. The tender was closed and the work was re-tendered citing imperative of completing the project before 30 May 2014. The project, however, has been delayed with completion date extended by a year to 15 May 2015.

Thus, by giving credence to the unopened price bid of a technically disqualified bidder and delaying the acceptance of a technically acceptable offer, the Company incurred extra expenditure of ₹ 19.45 crore♥ towards Heera Re-development Phase II Pipeline Project with a delay of one year. The Company, thus, failed to achieve both the objectives of cancelling the tender and re-tendering, namely lower price and completion by 30 May 2014.

The Company in reply stated (October 2014) that though Party 'B' had not indicated their sub-contractors for pipe line installation works, its subsidiary had executed similar projects of the Company in the past with the help of another competent sub-contractor and, hence, it was decided that the price revealed by Party 'B' could not be totally ignored. The Company also stated that as Party 'A' had not confirmed unconditional acceptance of project completion date, its bid was found liable for rejection. Further, the Company stated that in lump sum turnkey (LSTK) tenders, bidders quote for entire work and their bid is evaluated based on lump sum price quoted by them with no component-wise comparison as work is to be awarded on LSTK basis.

The reply is not acceptable as the Company, after considering the technical bids and clarifications received by it from the bidders, had decided that Party 'B' was technically disqualified. IEM had also endorsed the same. Hence, giving consideration to the price revealed by Party 'B' was not correct. The fact that the contractor had not confirmed unconditional acceptance of project completion date has to be viewed in the context of compression of project implementation period by four months and the fact that the project completion date had to be extended by a year following re-tendering owing to non-supply of materials by the Company to the contractor. Had the Company awarded the work to Party 'A' in January 2013 as recommended by TC, the question of Party 'A' not confirming unconditional acceptance of project completion date would not have arisen. The Company had arrived at the price of Party 'A' (the previous lowest tender) at USD 98.67 million by component-wise comparison of the work 'on like to like' basis with the awarded price of USD 102.37 million of the current tender. The extra expenditure as worked out by the Company has been brought out in Audit and, hence, the contention that component wise comparison is invalid in a LSTK contract is not acceptable.

♥ ***(USD 102.22 million – USD 98.67 million)*10,00,000*54.79.***

The matter was reported to the Ministry in November 2014; their reply was awaited (March 2015).

3.11 Extra expenditure due to non-availing of concessional customs duty

Oil and Natural Gas Corporation Limited, though eligible, failed to include a clause in the tender for procurement of capital goods in September 2004, for availing concessional customs duty under EPCG Scheme which resulted in extra expenditure of ₹ 7.41 crore.

Export Promotion Capital Goods (EPCG) Scheme was available since August 2004 for import of capital goods. As per para 5.2 of this scheme, import of capital goods for pre-production, production and post-production was allowed at three *per cent* concessional customs duty subject to an export obligation equivalent to eight times of duty saved on capital goods imported under the scheme to be fulfilled in eight years reckoned from authorisation issue date.

To avail of the EPCG benefits under the scheme, Oil and Natural Gas Corporation Limited (the Company) issued (September 2004) an office order deciding the functional responsibilities. The office order included, *inter alia,* the system of identifying eligible supply orders, preparation of application and obtaining EPCG licences in line with the provisions of the scheme. In July 2008, the Company created a separate EPCG cell at Mumbai for availing EPCG benefits and prescribed the role and responsibility of the cell.

The Company invited (June 2009) tenders through open International Competitive Bidding under two bid system for New Propane Gas Compressor project at LPG-I plant at Uran. The scope included design, procurement, installation of new propane gas compressor (motor driven) and hooking it up with the existing facilities.

The Company awarded the contract to M/s Savair Energy Limited (SEL), Navi Mumbai on 31 March 2010 and entered into a contract with SEL on 29 April 2010. The project, scheduled to be completed within 22 months *i.e.* by 30 January 2012, was finally completed on 17 July 2012.

Audit observed as under:

General Conditions of Contract (GCC) for the bidders published at the time of inviting tenders by the Company indicated that the bidders were not eligible for any concessional customs duty and, hence, advised them to quote their prices by considering normal customs duty as applicable for imported materials.

In spite of deciding (September 2004) the functional responsibilities of its executives for obtaining licences to avail of concessional customs duty on eligible goods under EPCG scheme and constituting (July 2008) a dedicated EPCG cell to identify the Purchase Orders/Contracts for the purpose, the Company failed to incorporate suitable provisions for availing of the benefit in the tender and contract for procurement of new propane gas compressor for LPG-I plant, Uran.

After one year of signing the contract with SEL, the Company realised the necessity of availing of the concessional customs duty at the rate of 3.09 *per cent* instead of normal rate of 23.75 *per cent*[1] and invited SEL (29 April 2011) to discuss on the modalities for availing of the benefit. The Company held (May 2011) discussions with SEL on the matter. However, SEL stated (October 2011) that since (i) EPCG clause was not specified at the time of tendering and was not a part of the contract and (b) the procedure involved in seeking approvals was enormous and the same might not be possible to complete in such a short time and the machine was ready for despatch from the vendor and, hence, requested not to consider the EPCG option at that juncture. The Company again held (November 2011) discussions with SEL on the matter. SEL stated that as the clause was not included in the tender, it had not factored this aspect while quoting for the turnkey contract. Finally, the Company conceded (November 2011) that further action to obtain EPCG benefit was not possible.

Hence, by not including the clause regarding EPCG in the tender conditions, the Company lost the opportunity of obtaining concessional customs duty resulting in extra expenditure of ₹7.41 crore.[2]

The Company stated (September 2014) that availability of EPCG benefit was not specifically informed to bidder during pre-bid/tender processing but sincere efforts were made by it to avail of EPCG benefit. It also stated that ₹ 7.41 crore was deposited as custom duty with the Government of India and no financial benefit had passed on to any private party.

Reply is not acceptable as financial propriety demands that any expenditure should not be more than what the occasion warrants. In the instant procurement, the Company incurred a higher expenditure than warranted. Further, though the amount of ₹ 7.41 crore was deposited as custom duty with the Government of India, the Company could have saved this expenditure by properly safeguarding its commercial interests while engaging in business.

The Ministry forwarded (12 January 2015) the reply of the Company which stated that this case was one of the first cases handled by Offshore Technology and Projects (OTP) department of the Company and that non-inclusion of EPCG clause in GCC of the tender was an unintended omission.

Reply of the Company forwarded by the Ministry needs to be viewed against the fact that the tender for present case was issued in 2009 whereas the Company had availed of the concessional customs duty in EPCG cases on the orders placed even in 2008. Further, the Ministry/Company in its reply (January 2015) has accepted the omission of non-inclusion of EPCG clause in the GCC of the tender.

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[1] ***Based on Bill of Entry and customs duty paid by the Company.***

[2] ***Actual customs duty paid by the contractor ₹ 8.52 crore minus concessional customs duty payable of ₹ 1.11 crore at 3.09 per cent under EPCG.***

3.12 Avoidable payment of rental due to abnormal delay in restoration and surrender of abandoned drill sites and approach roads

Oil and Natural Gas Corporation Limited delayed restoration and surrender of land to land owners on time in respect of 125 drill sites/approach roads that had been abandoned between February 2008 and December 2013 which resulted in avoidable payment of ₹ 6 crore towards rental to the land owners.

Oil and Natural Gas Corporation Limited (Company) acquires land for drill sites to drill wells for production of oil and gas and also land for temporary approach roads therefor either through the land acquisition authorities or a direct agreement with the land owners. Land is acquired initially on temporary basis and entails payment of annual rent to land owners. Subsequently, depending upon the result of the drilling, land is either acquired permanently by the Company or handed over to land owners after restoration. In terms of specific conditions of Environment Impact Assessment Notification of 2006 issued by the Ministry of Environment and Forests (MOEF), the Company is required to take measures to restore the drill site to the original condition after completion of drilling process.

During February 2008 to December 2013, 125 drill sites/approach roads for which land was acquired by three Assets[1] of the Company located in Western Region through a direct arrangement with land owners, were abandoned[2] after declaring the wells dry. The Company decided to surrender land related to such abandoned sites/approach roads to land owners. However, the Company had actually surrendered[3] land relating to only 45 such drill sites/approach roads till October 2014. Land relating to remaining 80 abandoned drill sites/approach roads was yet (October 2014) to be restored and returned to land owners.

Paragraph 10 of the Land Acquisition Manual, 2009 (LAQ Manual) of the Company stipulates that, if a well was found to be devoid of hydrocarbons and declared dry by Drilling Services/Sub-Surface Team (SST), the land acquired on temporary basis under a direct arrangement with the land owners should be handed over by the Company to land owners, after obtaining their consent/option, whether they would like to get the land restored through a contractor engaged by the Company or would restore the same themselves against receipt of restoration charges from the Company. Rentals for a period upto three months were payable to land owners beyond the date of payment of restoration charges.

Audit observed that in respect of land surrendered relating to 45 sites, there was delay ranging between 496 and 2,240 days in restoration and surrender of land to the land owners against the permissible time limit of three months for which rentals were payable as per LAQ Manual of the Company. In respect of land relating to 80 abandoned sites and yet (October 2014) to be surrendered, the delay ranged between 311 and 2,397 days which would continue till actual surrender of these locations. The delay had resulted in avoidable payment of rent of ₹ 6 crore from the date of abandonment even after allowing

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[1] ***Asset is a unit of the Company having functions relating to, inter-alia, Development and Production.***
[2] ***AnkleshwarAsset-51, MehsanaAsset-53 and AhmedabadAsset-21.***
[3] ***Ankleshwar Asset-16, Mehsana Asset-23 and AhmedabadAsset-6.***

three months' time for restoration of the sites, till surrender in the case of sites actually surrendered and till October 2014 in respect of sites yet to be surrendered.

The Company in its reply (October 2014) stated that:

- In respect of Ankleshwar Asset, restoration of land was initially taken up by it as farmers did not insist on undertaking restoration of site themselves. However subsequently, on farmers' request, the Asset agreed to pay restoration charges to the farmers. It was decided to pay the restoration charges in 2 tranches i.e. 90 *per cent* of the amount to be paid initially and balance 10 *per cent* on completion of restoration. This change in decision delayed the restoration work by over 2-3 years and consequential payment of rentals to farmers. The number of abandoned wells increased as the ongoing restoration cases could not be considered to be complete till necessary certification as per Gujarat Pollution Control Board (GPCB) and MOEF's guidelines was ensured. The Asset again decided (May/June 2014) that all such drill sites would be restored by the Company and restoration costs would no longer be paid to the farmers. The same practice was followed in respect of Ahmedabad and Mehsana Assets.
- Action had been taken to complete the restoration process on top priority in all the three Assets as a result of which the process had been regularized. In those instances where land restoration was going on, every effort was being made to complete the same after following laid down process as per LAQ Manual and in compliance of MOEF/GPCB guidelines. Meanwhile, in those cases where rental payments were being made as compensation to owners till completion of restoration, the same was considered unavoidable business expenditure.

The reply is not convincing in view of the following:

- Ankleshwar Asset made payment of restoration charges to land owners till March 2009. In March 2009, the Asset decided to carry out the restoration work itself. The land owners did not accept this arrangement and in July 2011 the practice of payment of restoration charges to the land owners was restored. From May/June 2014, the Asset had switched back to its policy of carrying out the restoration work itself. Frequent changes in the policy of restoration of the land had contributed to the delay.
- That delay in restoration work had resulted in payment of restoration charges in 2 tranches, is not acceptable as the delay was due to failure in carrying out the restoration work by the land owners/Asset in a time frame as laid down in the LAQ Manual of the Company.
- Land for only 6 sites had been surrendered and 15 sites remained to be surrendered in Ahmedabad Asset while in respect of Mehsana Asset, land for 23 sites had been surrendered and for 30 sites remained to be surrendered.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

ONGC Petro additions Limited

3.13 Defective contracts providing interest free advances to contractors and linking their recovery to progress of work in violation of CVC guidelines leading to loss of interest

ONGC Petro additions Limited (Company) entered into defective contracts with three contractors and extended interest free advances during March 2009 to November 2011 and linked the recovery of these advances to the progress of the related project in violation of CVC guidelines instead of effecting the recovery in a time-based manner and, thus, lost interest of ₹ 49.63 crore from February 2012 to October 2014. Besides this, the Company was yet to recover such advances of ₹ 144.20 crore from the contractors as on October 2014 sustaining further loss of interest.

ONGC Petro additions Limited (Company) is a Joint Venture (JV) of Oil and Natural Gas Corporation Limited (ONGC), GAIL (India) Limited (GAIL) and Gujarat State Petroleum Corporation Limited (GSPC). The Company is engaged in setting up a grass root mega Petrochemical Complex at Dahej, Gujarat. For establishing the complex, the Company awarded (December 2008 to June 2011) three high value contracts which had a provision of extending interest free advance to the contractors:

Sl. No.	Contract	Awarded to	Contract value (₹ in crore)	Date of award	Scheduled completion
1.	Duel Feed Cracker Unit and Associated units (DFCU and AU)	Consortium of M/s Linde AG, Germany and M/s Samsung Engineering Company Limited, Korea.	6,835.20	23 December 2008	22 August 2012
2.	Linear Low Density Polyethylene/ High Density Polyethylene (LLDPE/HDPE) swing unit and Polypropylene (PP) units	Consortium of M/s TecnimontSpA, Italy and Tecnimont ICB Private Limited	2,075.80	03 June 2011	02 October 2013
3.	Phase I and II of Captive Power Plant (CPP)	M/s Bharat Heavy Electricals Limited, (BHEL), India.	1,840.00	23 September 2010 15 April 2011	15 October 2013

As per the terms of these three contracts, the Company, on the request of the contractors, shall make an interest free advance payment of 10 *per cent* of the contract price within 30 days after signing of the contract against unconditional, irrevocable and unqualified Bank Guarantees (BG). The said advances shall be recovered at 10 *per cent* of gross value of each invoice (submitted by the contractor as a running bill) towards principal. Any balance amount of principal due on or after completion of respective project shall be recovered by the Company from the final invoice and/or by invoking the BG, at the Company's sole and absolute discretion.

Accordingly, the Company paid (March 2009 to November 2011) interest free advances of ₹ 1075.10 crore to the contractors of these three projects. All the three projects were delayed and were yet (October 2014) to be completed. However, as the recovery of the advances was contractually linked to progress of work, advances of ₹144.20 crore were still outstanding against the contractors as on 31 October 2014.

Audit observed that:

- The guidelines issued (April 2007) by the Central Vigilance Commission (CVC) stipulated that though grant of interest free mobilisation advances is not encouraged, the recovery of such advances, if extended to the contractor, should be time-based and not linked with the progress of work to ensure that even if the contractor was not executing the work or executing it at a slow pace, the recovery of advance could commence and scope for misuse of such advance could be reduced. However, in respect of the above three contracts, the Company entered into defective contracts allowing interest free advances by linking their recovery to progress of work which was in violation of the CVC guidelines. This resulted in loss of interest of ₹ 49.63 crore[♠] to the Company on the amount of advances blocked with the contractors beyond the scheduled date of completion of the respective project till October, 2014.
- Linking the recovery to progress of work led to making the interest free advances available to the contractors for a prolonged period and would be an incentive to the contractors for delay in the completion of the projects, which was specifically prohibited by CVC.
- As against the completion dates of the project (August 2012: one project, and October 2013: two projects), none of the projects had been completed by October 2014. As on that date, advances of ₹ 144.20 crore were outstanding against the contractors, leading to further loss of interest to the Company.

The Company in reply (October 2014) stated that:

a) The Company was promoted with the intent to establish a non - Public Sector JV. About 58 *per cent* equity of the Company was to be firmed up, of which at least 50 *per cent* equity was to be tied up via strategic equity and Initial Public Offer (IPO). Since the Company is a non-government company, CVC guidelines were not mandatorily applicable to it.

b) In all the three cases, the bidders requested for such advances. In case of tender for DFCU and AU contract (Sl. No.1 of the table), the second Pre Bid Conference (PBC) was held on 10 December 2007 in which bidders submitted their request for providing interest free advances. In respect of the limited tender floated for LLDPE/HDPE and PP contract (Sl.No.2 of the table), most of the bidders asked for advance in PBC. Considering the criticality of the project, CPP package (Sl. No. 3 of the table) was awarded on nomination basis to BHEL who also requested for advance. Based on the request from the contractors, the Company agreed for advance payment.

[♠] ***Calculated at the rate of 10.5 per cent per annum, being the rate at which the Company had borrowed the funds for the project.***

The reply is not acceptable in view of the following:

- Initially, the Company was floated (November 2006) as a Special Purpose Vehicle (SPV) by ONGC, GSPC and Financial Institutions (FIs)/Strategic Partners for implementation of Petrochemical Complex project at Dahej. The Petrochemical Complex involved an estimated outlay of ₹13,540 crore envisaging debt equity ratio of 2.55:1. The equity into the SPV was to be contributed by (a) ONGC: ₹ 992 crore (26 *per cent*), (b) GSPC: ₹ 190 crore (5 *per cent*) and (c) FIs and strategic partners (₹ 2,632 crore, 69 *per cent*). GAIL was inducted in March 2009 with 19 *per cent* stake into equity of SPV and corresponding reduction in the stake of FIs. However, with the passage of time, the envisaged equity contribution from FIs has been diluted by ONGC and GAIL by infusing substantial funds into the SPV without insisting for requisite equity contribution by FIs. As a result, 100 *per cent* paid up capital (₹ 2,021.92 crore) of the SPV *viz*. the Company as of 31 March 2014 had been contributed by ONGC (₹ 997.96 crore, 49.36 *per cent*), GAIL (₹ 994.94 crore, 49.21 *per cent*) and GSPC (₹ 29 crore, 1.43 *per cent*). The Company failed to rope in FIs and strategic partners. The meagre contribution of ₹ 2.5 lakh from individuals was static since incorporation.
- In addition to the above, ₹ 670.92 crore had been extended (May 2013) by ONGC as advance against equity of the Company against which shares had not been allotted to ONGC as of March 2014. Thus, the operations of the Company are virtually being run on public funds entirely through ONGC, GAIL and GSPC barring a meagre contribution of ₹ 2.5 lakh by individuals.
- In relation to all the three contracts, the bidders had only requested for interest free advances and did not insist for linking recovery to progress of work. Thus, there did not appear adequate justification for linking recovery to progress of work.
- The Company was following the CVC guidelines on selective basis. It did not agree to extend interest free advance in two cases (contracts with M/s Vijay Tanks Vessels Limited and Samsung Engineering Limited awarded in January/June 2011) though the bidders had requested for such advance.
- Hence, instead of following the CVC guidelines in a selective manner, the Company should have uniformly followed these guidelines, especially when its equity stakeholders *viz.* ONGC, GAIL and GSPC were subject to these guidelines and were following the same.

Thus, the fact remains that the Company entered into defective contracts providing interest free advances to the contractors and linked recovery of the advances to progress of work in violation of CVC guidelines and sustained loss of interest.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

CHAPTER IV: MINISTRY OF POWER

Damodar Valley Corporation

4.1 Metering and Billing

4.1.1 Introduction

Damodar Valley Corporation (Corporation) supplies power in accordance with the provision of the DVC Act, to its consumers in core Sectors like Traction (Railways), Steel, Coal and other load categories at 33, 132 and 220 Kilo-Volt (KV) level at different locations within the Damodar Valley area and also at few locations beyond the valley areas with the permission of the concerned State Governments. The Corporation's Transmission and Distribution network is spread over seven districts of the Jharkhand State and six districts of West Bengal. As on 31st March 2014, the Corporation had 283♥ High Tension (HT) Consumers with 3,156.195 Mega Volt Amperes (MVA) Contract Demand (CD) who were being fed from 41 Sub-stations and at three voltage levels viz. 220/33 KV (73 Consumers), 132/33 KV (208 Consumers) and 132/25 KV (two Consumers). Besides the HT consumers, power is also fed into the Low Tension (LT) infrastructure of its colonies set up around the Corporation's power plants.

4.1.2 Audit Framework

4.1.2.1 Scope of Audit

A review on "Metering, Billing and Collection of Energy Charges" was conducted covering the period 1999-2000 to 2002-03 and was incorporated in the Annual Report of the Corporation for the year 2002-03 in accordance with Rules 31 of DVC, 1948. The significant issues highlighted by audit in the above report were:

- Delay in implementation of the modernised metering system.
- Unfavourable debtors' ratios.
- Absence of time frame for rectification of defective meters.

The Action Taken Note (ATN) on these issues has not been received so far (October 2014). In the meantime power generation capacity, number of consumers and sales of power increased considerably. The Corporation had also taken up implementation of modernised metering system i.e. Remote Automatic Meter Reading (RAMR) system by upgrading or replacing the existing 0.2 accuracy class meters and installation/implementation of System Energy Measurement Accounting and Auditing (SEMA). In the backdrop of these developments, a follow up audit on the metering and billing system of the Corporation was undertaken which covered a period of three years (2011-12 to 2013-14).

♥ ***Regarding number of consumers as on 31.03.2014 different figures were furnished by different divisions/sections of the Corporation. We have considered 283 consumers (as furnished by Commercial section of the Corporation) on conservative approach.***

4.1.2.2 Audit Objectives

The Audit objectives were to ascertain whether:

- An appropriate metering system for the consumers of power supplied by the Corporation was there and the same was effectively functional.
- The Corporation has been able to install/configure the electronic revenue protection system as intended, in a time bound manner to achieve efficiency in billing and monitoring of Distribution loss respectively.
- The collection of dues from the consumers was efficient and effective.

4.1.2.3 Audit criteria

The following audit criteria were adopted:

- Electricity Act, 2003;
- Notifications of Central Electricity Authority (CEA);
- Corporation's internal orders/circulars; and
- Tariff orders/ notifications of Central Electricity Regulatory Commission (CERC).

4.1.2.4 Audit methodology

Audit examined the records maintained at different departments of the Corporation. Besides this, Audit also test checked records of nine out of 41 sub-stations (*22 per cent*) under six Grid Operation and Maintenance Divisions (GOMDs). Private consumers were predominant in 7 out of 9 sub-stations while in the rest 2 sub-stations, PSU consumers were predominant.

4.1.3 Audit Findings

All the HT power consumers of the Corporation were being metered since 1952. As on 31 March 2014, there were 283 HT power consumers with active Contract Demand (CD). All tariff meters of HT consumers were of 0.2S[♠] accuracy as specified by CEA regulations 2006. Apart from this, the Corporation had Low Tension (LT) consumers (employees, outsiders and commercial establishments) in its colonies. The LT consumers of the Corporation are situated in the colonies set up around its power plants and most of them were not metered.

4.1.3.1 Unproductive investment in implementation of modernised metering system

Corporation was aware (2000) of the higher T & D losses and decided to take up a time bound programme for energy audit. CEA meanwhile notified (March 2006) installation of System Energy Accounting and Audit (SEMA) meters at all locations.

[♠] ***0.2S Class Accuracy Meter has the accuracy of +/- 0.2 percent when the current of the meter is within the band of >5 percent and within 120 per cent of rated current (the maximum current that can be applied continuously under specified conditions without harming a component, circuit etc.)***

(a) System Energy Measurement (Accounting & Audit) – SEMA

The work for establishment of SEMA (Phase- I) for implementation of energy accounting system at 33KV and 415V level distribution network of the Corporation, was awarded (December 2007) at a cost of ₹ 6.38 crore with scheduled completion by December 2009. However, the work was completed in May 2013 with a delay of 41 months. The Corporation accepted (January 2015) that the delay was mainly on execution of its part of the job. However, implementation of SEMA (Phase– II) scheme at 132KV & 220KV level of Corporation's power system was pending (March 2014).

It was observed from the data captured by SEMA system (Phase – I) for around 15 to 47 consumers for the period June to December 2013, that the difference between SEMA energy and consumer energy ranged from (-) 1 *per cent* to (+) 6.14 *per cent*. The Corporation stated (November 2014) that the difference indicated insufficient accuracy due to manual feeding of data (without software), erratic functioning of communication network, breakdown of link due to outage of auxiliary equipments in Global System Mobile (GSM) technology, non-availability of auxiliary colony consumption of energy and non coverage of new consumers under the SEMA system. It was also stated that post February 2014, energy accounting study was not being done.

It was further observed that T&D losses have been on an increasing trend from 3.91 *per cent* in 2011-12 to 4.30 *per cent* in 2013-14. Records revealed that the Jharkhand State Electricity Regulatory Commission (JSERC) in its provisional tariff order of 2012-13 approved T&D loss of three *per cent* for the Corporation. Analysis of data of the selected sub-stations revealed that there was 6.32 MU of T&D loss (beyond three *per cent*) during 2013-14 (i.e. after implementation of SEMA) with a financial implication of ₹ 2.66 crore. This loss could have been arrested by the Corporation, if it had ensured that SEMA was in proper working condition. Thus, the very objective for which the project was taken up was not fulfilled and the investment of ₹ 6.38 crore remained unproductive.

The contention of the Corporation (January 2015) that the increasing trend of T&D loss was due to enhancement of CD of a few consumers and over drawal of power by JSEB is not acceptable as the consumers had drawn power more than their CDs which could have been restricted with the implementation of SEMA.

(b) Global System for Mobile Communication (GSM) Metering

With a view to implementing revenue protection system for accurate and faster billing through remote metering and thereby improving cash flow cycle as well as revenue management cycle, the Corporation took up (September 2007) GSM metering system. The main purpose of the GSM metering system was to raise the consumer bill on first day of the month and reduce billing cycle. The other purposes of the system were to monitor the consumer loading pattern, tamper events, if any, as well as identify loss prone system components and to develop the infrastructure for SEMA. Out of total 283 consumers, the work for installation and commissioning of GSM connectivity at different locations in respect of 250 consumers along with remote automatic meter reading system (RAMR) was completed (March 2014).

Audit, however, observed as follows:

(i) Even after implementation of RAMR there were 92 instances where the Corporation did not raise consumer bills accurately on first day of the month and raised Energy Adjustments Bills for ₹ 12.51 crore with a delay ranging from 1 to 9 months. Main reason for such delay was non-tallying of meter reading of RAMR with the reading of sub-stations caused either by defective meters or outage of auxiliary equipments of GSM system.

(ii) Many consumers were drawing power in excess of their contract demand (CD). Out of 9094 instances of drawal of power in respect of consumers each month from June 2011 to March 2014, there were 2558 instances (28 *per cent* of 9094 instances) of overdrawal. In 473 instances of 2558, the consumers had overdrawn even 100 to 28901 *per cent* of their CD. Though Eastern Regional Load Despatch Centre (ERLDC) had warned the Corporation of this indiscipline in power drawal, the same continued even after implementation of GSM scheme. It had since increased considerably from 1711388 KVA in 2011-12 to 7533718 KVA in 2013-14.

The Corporation agreed (January 2015) that there was scope for improvement by way of maintenance and monitoring of GSM system.

4.1.3.2 Unfavourable debtors' ratio resulted in increase in working capital loan

Prior to the implementation of Electricity Act 2003 (effective 10 June 2003), the Corporation was authorized to determine its own tariff under section 20 of the DVC Act, 1948. The Corporation, however, continued to bill its consumers at its own determined tariff rate and did not approach CERC in time to determine the tariff. Hence, CERC initiated suo-motu proceedings and determined the tariff effective for the period 2006-2009 by allowing two years' transition period upto March 2006. The Corporation did not accept the same and took legal recourse. Consumers were continued to be billed as per Corporation's own tariff. Meanwhile, the tariff order of CERC for 2009-14 had already been issued which was accepted by the Corporation and consumers were billed accordingly. However, reconciliation of consumer dues with reference to the applicable tariff of 2006-09 and 2009-14 was pending (March 2014). This affected the realisation of old dues from the consumers. The position of book debts of the Corporation on account of Energy Charges vis-à-vis Sales, average collection period and current assets for the last three years ending 31 March 2014, is as follows:

Year	**Sales (₹ in crores)**	**Debtors (₹ in crores)**	***Per cent* of Debtors to Sales**	**Average Collection Period (in months)**	**Current Assets (₹ in crores)**	***Per cent* of Debtors to Current Assets**
2011-12	7,067.40	5,318.21[1]	75.25	7.80	8,108.44	65.59
2012-13	10,603.87	6,538.03[2]	61.66	6.80	11,297.77	57.87
2013-14	11,672.08	8,605.02	73.72	7.89	13,486.91	63.80

[1] ***Excluding un-billed amount of ₹ 919.82 crore.***

[2] ***Excluding un-billed amount of ₹ 1,103.87 crore.***

Thus, outstanding debts for more than three years reached ₹ 3,260.57 crore as on 31 March 2014 which was 38 *per cent* of the total debtors of ₹ 8,605.02 crore. The outstanding dues coupled with higher revenue collection period resulted in increase in working capital loan of the Corporation and consequential interest outgo. Records revealed that the short-term loan of ₹ 1,602 crore in 2011-12 had reached ₹ 3,349 crore in 2013-14 and the Corporation had to shoulder interest burden of ₹ 577.79 crore during the period 2011-12 to 2013-14, which in turn, increased the cost of short term loan interest per megawatt of power[♣].

The Corporation, in its reply (January 2015) attributed accumulation of debtors mainly to litigation. However, they were silent on non-adherence to CERC tariff for the period 2006-09 and non-reconciliation of debts after finalisation of tariff by CERC for 2006-09 as well as 2009-14.

4.1.3.3 Delay in raising of Fuel Price Adjustment bill

The monthly bills for energy charges covering primary fuel cost should be raised on consumers along with bills for fuel price adjustment (FPA), if any.

It was observed that during the period 2011-12 to 2013-14, the Corporation delayed issuing FPA bills amounting to ₹ 178.92 crore. Test check revealed delay ranging from one to ten months. The main reason for such delays was late furnishing of fuel data by the thermal power stations (TPSs) of the Corporation. This resulted in delayed recovery of adjustment bills from consumers, which could have been avoided if there had been an appropriate mechanism and/or information system for raising FPA bills in time.

The Corporation attributed (January 2015) the delay in raising of FPA to non-receipt of monthly coal values from TPSs and availability of performance incentive (PI) value for coal consumption only at year end. The reply is not convincing as flow of information from TPSs regarding consumption of coal was possible to have been streamlined and strengthened for timely raising of FPA bills. Further, there was scope for proper estimation of PI value of coal consumption after considering the annual contracted quantity (ACQ) on the basis of Fuel Supply Agreement (FSA) which was well known to the Corporation.

4.1.3.4 Irregular Meter Reading (HT)

The Corporation had set up two meters (M1 and M2) and a check meter for capturing power consumption and billing thereof as per Power Purchase Agreement (PPA) with HT consumers. Both M1 and M2 meter readings were to be taken regularly for ascertaining proper functionality of meters and accurate billing. Audit observed that out of the 155 HT consumers of the selected sub-stations, M2 meter reading of 106 consumers was not taken at all. Further scrutiny of 29 consumers in respect of whom M1 and M2 meter readings were both taken regularly, revealed that billing for their power consumption was made from the reading of M1 meter irrespective of deviations (both negative and positive) of the meter reading as compared to M2 meter reading. Further, in some cases deviation of

[♣] ***Cost of short term loan interest: ₹ 50/mwh in 2011-12, ₹ 80/mwh in 2012-13 and ₹ 100/mwh in 2013-14.***

the above meter reading was much higher than meter's accuracy class. No analysis of such deviation was found on record. Further, the Corporation did not clarify reasons for sub-stations' not ensuring that readings of both the meters were taken.

The Corporation stated (January 2015) that in case of a difference of more than 0.4 *per cent* between M1 and M2 meter readings, the Corporation raised bills on average basis and in the case of a difference of more than 0.4 *per cent* in M1 meter and check meter reading, investigations and corrective actions were taken. The reply does not answer the audit observation which was on irregular reading of both M1 and M2 meters and non-monitoring for proper functioning of the same.

4.1.3.5 No time frame followed in rectification of defective meters

As per CEA regulations 2006, if the meter was found erratic and the error was beyond the permissible limit as provided in the relevant standard, the meter should be replaced immediately with a correct meter. The Corporation did not prescribe any timeline in this regard. During the period covered by audit, out of 61 cases of complaints made by HT consumers, meters required replacement in 55 cases. Replacement of defective meters which was required to be done immediately in all cases as per CEA regulations, took one to 12 weeks' time in 32 cases (**Annexure–XVIII**). It was also observed that the monthly stock position was sufficient to meet the required replacement.

The Corporation stated (January 2015) that in 70 *per cent* of the cases, defective meters were replaced within a timeframe of 11 days. This contention is not acceptable as defective meters were to be replaced immediately as per the regulation for accurate reading and raising of power bills. The contention that action was being taken for replacement of defective meters within 2 weeks, was not in line with CEA regulations and hence not acceptable.

4.1.3.6 Non-levy of disconnection & reconnection charges

As per Section 56 (Disconnection of Supply in default payment) of Electricity Act, 2003, the Corporation was entitled to discontinue the power supply of a defaulting consumer until such charge or other sum, together with any expenses incurred by it in cutting off and reconnecting the supply were paid. During the period covered by audit, there were 110 cases of disconnections, out of which in 89 cases, the lines were reconnected. In the context of numerous cases of disconnection and reconnection, the Corporation estimated (September 2011) an amount of ₹ 4.55 lakh and ₹ 8.51 lakh for disconnection plus reconnection of a consumer's line fed from Single Circuit (S/C) feeder and Double Circuit (D/C) feeder respectively. The total expenditure incurred by the Corporation for disconnection and reconnection stood at ₹ 4.33 crore during period covered under audit, which was not levied.

The Corporation's view (January 2015) that there were no disconnection and reconnection charges in the JSERC Supply Code Regulations, 2005, is not borne out by facts. Further, there was no bar in the WBERC Electricity Supply Code for levy of such charges. Also, as per section 56 of Electricity Act, 2003, the Corporation was entitled to levy disconnection and reconnection charges on consumers and non-levy of the same resulted in extension of undue benefit to such consumers.

4.1.3.7 Loss of revenue due to non-installation of meters to LT consumers:

The Corporation supplies power in the LT infrastructure of its residential colonies, employees of outside agencies residing in the quarters, its offices, government offices, public utilities, commercial establishments, shops etc. Scrutiny of records of six field formations of the Corporation viz. BTPS, CTPS, DTPS, MTPS♦, Maithon and Panchet revealed that neither any mechanism existed to restrict the drawal of power by residents (including employees) nor any functional metering arrangement was made to measure the power consumed by individuals for residential quarters. Bills based on actual power consumption were neither issued nor charges collected from employees during the period covered by audit. Only a nominal fee of ₹ 7/10/15/20 per employee per month based on their grade pay was recovered from the pay bills of employees posted at the above field formations. The total amount collected during the period covered by audit from employees of all the six units was ₹ 9, 69,937/-. Such collection was based on provisional rates decided by the Corporation more than a decade ago and the provisional rates were not replaced (October 2014) with final rates. Though the basic ceiling of free power units for different grades of employees was fixed only in March 2009 but the ceiling was not adhered to in the absence of any metering system. An assessment exercise during July 2012 at MTPS done by the Corporation revealed that ex-employees of the unit staying in Corporation's quarters had an assessed load ranging from 590 watt to 9,560 watt. Outsiders staying in quarters at all the units either paid on load assessment basis or fixed charge/ charge for fixed units. Some commercial establishments such as banks, ATMs etc. were fitted with meters but most of the commercial establishments (including shops) were billed on fixed charge basis which was not based on actual consumption. The Corporation initiated (2011) a load assessment exercise for commercial establishments to bill them on the basis of load assessment which was not accepted by shopkeepers at Maithon as they considered it un-scientific and demanded installation of meters. Metering of commercial shops was done only in BTPS (2012). As a result, billing and realization for 2013-14 increased by 498 *per cent* as compared to 2011-12 for the Corporation. Non-installation of meters in the premises of the LT consumers to ascertain actual consumption of electricity resulted in the Corporation not enforcing recovery of ₹ 142.72 crore towards electricity charges during the period covered in audit (**Annexure– XIX)**.

While accepting the audit observations, the Corporation stated (January 2015) that the billing would be started on LT consumers as per actual energy consumption after completion of installation of energy meters.

Conclusion

Most of the deficiencies pointed out in the review carried out by Audit of the Corporation in 2003 were still persisting. Investment made by the Corporation for implementation of modernised metering system, i.e. SEMA and GSM remained unproductive and ineffective resulting in non-fulfilment of objectives. The Corporation did not adhere to the time frame of the tariff petition as prescribed by CERC as per Electricity Act, 2003 which was one of the reasons for the accumulation of huge outstanding dues from consumers. Both M1 and M2 meters

♦ ***BTPS = Bokaro Thermal Power Station, CTPS = Chandrapura Thermal Power Station, DTPS = Durgapur Thermal Power Station and MTPS = Mejia Thermal Power Station.***

were not regularly verified and replacement of defective meters was unduly delayed. The Corporation did not collect disconnection and reconnection charges from its consumers allowed under Electricity Act, 2003 and also did not install meters in respect of most of LT consumers. Non-installation of meters in the premises of the LT consumers prevented the Corporation from ascertaining the actual consumption of electricity which resulted in the Corporation not enforcing recovery of ₹ 142.72 crore towards electricity charges during the period covered in audit.

The matter was reported to the Ministry in January 2015; their reply was awaited (March 2015).

4.2 Loss of opportunity to recover Engine Detention Charges

The Corporation had lost the opportunity to recover ₹ 24.25 crore paid by way of Engine Detention Charges on account of under-performance of Contractor due to absence of suitable contractual provision.

Mejia Thermal Power Station (MTPS) of Damodar Valley Corporation (Corporation) receives bulk quantity of coal through railway wagons. Railway authority levies demurrage charges for delay in unloading of rakes beyond specified schedule time. In addition, Engine Detention Charges (EDC) are also levied in case Railway LOCO is detained for such delay in unloading. As MTPS does not have its own LOCO facility, it has no other option but to engage the LOCO provided by the Railways for placement of wagons at the track hopper in order to facilitate unloading of coal.

The Corporation entered into a contract agreement with a contractor (June 2009) for various services including supervision of loading of coal at loading point and unloading at unloading point in respect of MTPS Units # 1 to 6. The value of the contract was ₹ 20.88 crore for a period of one year with a provision to extend it for further period. As per the provisions of the agreement, the contractor was to ensure loading of sized coal (below 200 mm) without any extraneous materials, boulders and slurry etc. at loading point. It was also stipulated that demurrage charges payable to Railways due to delay in unloading of coal was to be recovered from the contractor. However, there was no provision in the agreement towards recovery of EDC levied by the Railways from the contractor for such delay in unloading of rakes. The Corporation incurred EDC amounting to ₹ 35.31 crore during the period, June 2009 to January 2014.

Audit examination revealed that ₹ 24.25 crore of the EDC had arisen due to delay in unloading coal containing stone/boulders, oversized coal and slurry which was attributable to under performance of the contractor at the time of loading. As there was no provision in the agreement, the Corporation could not recover it from the contractor. Audit also observed that while finalizing the above contract, the management did not safeguard the financial interest of the Corporation as there was no clause in the agreement to recover EDC from the contractor on account of delay in unloading of coal. It was also observed that the above contract was extended from time to time, but the Corporation did not consider incorporation of a suitable clause towards recovery of EDC from the contractor.

The Corporation in its reply (July 2014) contended that EDC was in fact engine hiring charges and the same came under freight. They further stated that the same was recoverable from consumers and hence, there was no loss to the Corporation on account of EDC.

This contention is not acceptable as EDC is payable to Railways for detaining LOCO beyond the free time allowed whereas engine hiring charge is payable for the materials transported through Railway wagons from one station to another. Further, both EDC and demurrage charges were billed by Railways separately in addition to the freight bill. Their further contention that EDC was recoverable from consumers is also not acceptable as EDC did not form part of energy charges as prescribed by CERC and hence had to be borne by the Corporation.

Ministry stated (September 2014) that the provision for recovery of EDC was not kept in the terms of contract, because the same would have inflated the bidders' quoted price and consequently total contract cost, as nobody would bear such unavoidable cost. It was further stated that in case of non-occurrence of Engine Detention beyond free time (say unloading of good quality indigenous coal/imported coal) payment at inflated rate would have been criticized otherwise.

The above plea of the Ministry that any provision for recovery of EDC would have inflated the bidder's quoted price is not tenable as it was purely hypothetical and not based on detailed assessment of figures that could have been used by the contractor. It is also pertinent to note that the contractor would not have had to perform any additional work for avoidance of EDC. Moreover, the audit observation does not relate to the entire EDC but to the extent of EDC that was incurred due to failure on part of the contractor like recovery of demurrage. Thus, in the absence of appropriate clause in the agreement, the financial interest of the Corporation was not safeguarded. The fact that the Ministry stated that inclusion of EDC under contractor's scope would be reviewed during finalization of the scope of work for the next contract is also a tacit admission that there was deficiency in the agreement with the contractor.

Thus, the Corporation had lost the opportunity to recover ₹ 24.25 crore towards EDC arising out of under-performance of the contractor, due to absence of a suitable provision in the contract agreement.

4.3 Avoidable expenditure towards additional UI charges

Non adherence to IEGC Regulation for maintaining grid discipline by the Corporation led to an avoidable expenditure of ₹ 16.21 crore towards additional Unscheduled Interchange charges.

As per the System Security Aspects of The Central Electricity Regulatory Commission (Indian Electricity Grid Code) Regulations, 2010 (IEGC Regulation), State Load Dispatch Centres (SLDCs) shall take all possible measures to ensure that the grid frequency always remains within the range from 49.5 to 50.2 Hz. band. For the purpose of the above regulation, Central Load Dispatch, Maithon (CLD) of the Corporation is to perform functions of SLDC and have the total responsibility for scheduling/ dispatching of its own generation. The CLD should also initiate action to restrict the drawal of power of its command area, from the grid, whenever the system frequency falls to 49.7 Hz. It was also stipulated that in case the grid frequency is 49.5 Hz or below, CLD of the Corporation should ensure that requisite load shedding is carried out in its command area so that there is no over-drawal of power. CERC Regulation[1] stipulated that for every over-drawal or under-injection of power when the grid frequency is below 49.5 Hz, additional Unscheduled Interchange (UI) charges at a specified rate is applicable over and above the applicable UI charges[2].

Audit observed that during the period from April 2011 to March 2014, the Corporation overdrew power on various occasions when the grid frequency was 49.5 Hz or below for which it had to pay ₹ 16.21 crore towards additional UI charges. This indicated that the CLD of the Corporation did not take appropriate steps to restrict drawal of power in its command area while the grid frequency reached to 49.7 Hz and also did not resort to requisite load-shedding as prescribed by CERC even when the frequency fell to 49.5 Hz or below.

Management while admitting the fact of payment of additional UI charges stated (June 2014) that random load shedding could be done only in a limited quantum of load. Ministry, while endorsing the views of the Management, further added (October 2014) that the Corporation has been supplying power to some core sectors providing essential services and due to its criticiality load shedding was not resorted to.

The above statement of Management and Ministry has to be seen in the context of maintaining Grid Discipline. Drawal of power when the Grid Frequency was 49.5 Hz or below constituted a serious act of indiscipline. Such action, besides putting Grid stability to danger, also resulted in higher expenditure of ₹ 16.21 crore by way of additional UI charges.

Power Grid Corporation of India Limited

4.4 Incorrect evaluation and award of contracts to Joint Ventures led by a financially weak firm

Power Grid Corporation of India Limited (PGCIL) awarded seven tower contracts between February 2010 and July 2010, valuing ₹ 927.69 crore to joint ventures led by a financially weak firm based on incomplete evaluation by internal Assessment Committee resulting in cost overrun and delay in completion of works and transmission constraints.

PGCIL awarded seven tower contracts aggregating ₹ 927.69 crore to three Joint Ventures (JVs)[3] led by SPIC-SMO[4], a division of Southern Petrochemical Industries Corporation Limited (SPIC), Chennai during February to July 2010.

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[1] *Central Electricity Regulatory Commission (Unscheduled Interchange Charges and related matters Amendment) Regulations 2010 dated 28.04.2010*

[2] *UI charge is a commercial mechanism to maintain grid discipline. The UI charges are payable depending upon what is deviated from the schedule drawal of power given by the power generators/distributors themselves and also subject to the grid conditions at that point of time.*

[3] *(i) JV of SPIC-SMO & SUJANA (ii) JV of SPIC-SMO & ASTER and (iii) JV of SPIC-SMO & BS TRANSCOM*

[4] *Maintenance Organisation Division of Southern Petrochemicals Industries Corporation Limited (SPIC), Chennai*

Award of first contract for tower TW-03 associated with system strengthening scheme for Sasan and Mundra UMPPs to Joint Venture of SPIC-SMO and SUJANA led by SPIC-SMO (L1 bidder) at ₹ 99.34 crore was approved (December 2009) by the Board of Directors (Board) of PGCIL based on the recommendation of the Management that the bidder had requisite capability and capacity to execute the contract.

Subsequently, in January 2010, while approving award of two more contracts for towers A2 and A8 associated with Central Part of the Northern Grid to JVs led by SPIC-SMO (being L1) at ₹ 201.59 crore, Board observed that though M/s SPIC met the bid evaluation criteria of Minimum Average Annual Turnover (MAAT) and Liquid Assets (LA), an assessment of SPIC was required to be carried out in view of their financial health before awarding further contracts. Accordingly, an internal Assessment Committee[♥] was constituted by PGCIL on 27 January 2010 *inter alia* to carry out assessment of SPIC-SMO including SPIC's financial analysis.

The Assessment Committee after visit to office of SPIC in Chennai in January 2010 reported (February 2010) that despite substantial losses in fertilizer business of SPIC during period 2004-05 to 2008-09, their net worth remained positive. However, it was noticed in audit that the Assessment Committee while calculating net worth of SPIC had ignored not only the accumulated losses of SPIC as appearing in their financial statements for the concerned periods, but also the impact of qualifications of the statutory auditors on financial statements of SPIC. If the impact of accumulated losses and qualification of statutory auditors was considered, the net worth of SPIC would have been 'Negative' as shown in the table below against 'Positive' reported by the Assessment Committee.

(₹ in crore)

Sl. No.	Particulars	2008-09	Year ending March 2008 (18 months)	Year ending September 2006 (18 months)	2004-05
1	Share capital	120.45	120.45	120.45	100.55
2	Reserves	237.71	237.71	237.71	101.45
3	Accumulated Profit (loss)	(1755.21)$	(880.32)^	(219.22)*	(325.51)
4	Net Worth (1+2-3)	(1397.06)	(522.16)	138.94	123.51

*** After considering qualification of statutory auditor amounting to ₹ 44.13 crore under para 5 (ix) of his report for the period. During the year accumulated loss of ₹ 533.79 crore were adjusted against Revaluation Reserve.**

^ As per Statutory Auditor's report under para 5 (vii) a & b

$ After taking into effect qualifications of Statutory Auditors' under para 4 (vii) a & b of their report

While reporting that SPIC had not been maintaining satisfactory financial health for the last two to three years, the Assessment Committee observed that financial position of SPIC had not impacted the operations of its SMO division which was responsible for erection of transmission lines under JV arrangement. Assessment Committee in addition to already awarded three contracts for tower packages, recommended award of four more contracts for towers D1, D2, A1 and A3 to JVs led by SPIC-SMO stating that the annualized value of the scope of work to be executed by SMO division of SPIC

[♥] ***Comprising representatives from Finance, Engineering and Contract Services departments of PGCIL*** aggregated to around 1.5 times of their turnover of ₹ 125 crore during 2009. Considering the report and recommendations of Assessment Committee, the Board approved (February to July 2010) award of four more tower contracts to JVs led by SPIC at ₹ 626.76 crore.

However, it was noticed in audit that just before the award of seven packages to the JVs led by SPIC, the debts of SPIC had been restructured under the Corporate Debt Restructuring Mechanism♣ and a 'Rework Package' of SPIC was approved by Asset Reconstruction Company (India) Limited and other financial institutions in October 2009. The 'Rework Package' *inter alia* provided that SPIC should sell its SMO division on or before 31 March 2011. Thus, when Assessment Committee visited the office of SPIC in January 2010, SPIC was under an obligation to sell its SMO division as per 'Rework package'. The Assessment Committee's Report mentioned about approval of the restructuring scheme of SPIC but was silent on further details regarding impending sale of SPIC-SMO. SPIC-SMO was sold in September 2011 to M/s Mirador Commercial Private Limited (MCPL). Thus, uncertainties arising from change in ownership/management of SMO Division during the crucial period of execution of the projects were not brought to the notice of Board by Assessment Committee and consequently, Board was denied the opportunity to take an informed decision. Poor financial health and inadequate mobilization of resources by M/s SPIC was one of the significant reasons for delay in execution of contracts because the resources of SPIC were found by PGCIL (January 2011) to be overstretched and inadequate to achieve the desired rate of progress of works. After take over of SMO division of SPIC from August 2011 by MCPL, the latter was also reluctant to deploy resources for the above contracts leading to further delay in completion. Four out of seven contracts were completed with delays ranging from 22 to 30 months and three contracts are still under execution (March 2015) despite delays ranging from 23 to 38 months. Out of the four completed contracts, liquidated damages of ₹ 41.79 lakh had been levied on the contractor for delay on their part while decision by PGCIL on levy of liquidated damages in respect of remaining three contracts was awaited (March 2015). One out of the contracts under execution had to be terminated by PGCIL in May 2014 due to poor performance of contractor and was yet (December 2014) to be re-awarded leading to further delay.

Delay in completion of transmission lines under the above contracts not only led to cost over run of ₹ 53.50 crore but also constraints in transmission systems. It was observed in Audit that Talwandi Saboo and Rajpura thermal power stations had been synchronized in March 2014 but the associated transmission lines linked to towers A1 and A3 were commissioned in May 2014 and August 2014 respectively. National Load Despatch Centre *inter alia* observed (April 2014) constraints in evacuation of power due to delay in commissioning of Punjab transmission systems for evacuation of power from Talwandi Saboo and Rajpura thermal power stations. Severe constraints were observed in Wardha Parli and Wardha Akola Transmission lines due to non-commissioning of 400 kV Wardha Aurangabad transmission lines linked to tower contracts D1 and D2.

PGCIL stated (March 2013/March 2015) that (i) contracts were awarded to JVs of M/s SPIC-SMO and other tower manufacturers. In financial terms the share of responsibility

♣ ***The objective of Corporate Debt Restructuring or CDR introduced by Reserve Bank of India was to ensure timely and transparent mechanism for restructuring of corporate debts of viable entities facing problems for the benefit of all concerned.***

of M/s SPIC-SMO and tower manufacturers was approximately in the ratio of 45 *per cent* and 55 *per cent* (ii) though financial performance of SPIC was not very much encouraging at the time of assessment, the performance of their SMO division was satisfactory and was ring fenced (iii) facts as brought out by the Assessment Committee were deliberated by Board of PGCIL before approving the award of contracts in favour of JVs of SPIC and (iv) details of impending sale of SMO division of SPIC were not brought to the notice of Assessment Committee by SPIC.

The reply is to be viewed against the facts that (i) M/s SPIC-SMO was the lead partner in JVs responsible for critical and specialized nature of work *i.e.* tower erection and stringing. Moreover, in view of negative and deteriorating trend of their net worth, award of even 45 *per cent* share of responsibility in financial terms to SPIC was not free from risk of under-performance, (ii) as per Board's decision of January 2010, the Assessment Committee was required to carry out financial analysis of M/s SPIC as a whole and it was not appropriate to view the performance of SMO division in isolation, (iii) Board's decision was based on the report of Assessment Committee which provided incorrect information regarding net worth of SPIC and did not indicate the updated status of impending sale of SMO division to a new owner during crucial period of execution of the projects, and (iv) having been aware of the ongoing restructuring of SPIC, it was in the interest of PGCIL to update itself of the latest status of restructuring of SPIC from independent sources rather than relying solely on the inputs from SPIC.

Ministry stated (May 2014) that mention regarding positive net worth of SPIC in the report of Assessment Committee was inadvertent and would not have affected the final conclusion since PGCIL awarded contracts to Companies having negative net worth also. Ministry, however, acknowledged that change of ownership of SPIC-SMO and unwillingness of MCPL to execute the works contributed to delays. Ministry added that PGCIL had brought in systemic improvements and had introduced assessment of bidder's capacity by Standing Committee at Executive Director level, based on the contractor's performance in PGCIL contracts.

The fact remains that Board's decision was based on favourable recommendations of the Assessment Committee which downplayed the actual financial condition of SPIC and did not report crucial information about impending sale of SPIC-SMO.

Thus, furnishing incorrect and incomplete information by the Assessment Committee to the Board resulted in award of contracts to JVs led by a financially weak firm leading to cost overrun and delay in completion of awarded works along with transmission constraints.

Rural Electrification Corporation Limited

4.5 Loss of interest due to disbursement of soft loans under RGGVY

REC suffered loss of ₹ 153.36 crore upto December 2014 as it did not approach MoP to reimburse the differential interest on soft loans extended under RGGVY.

Ministry of Power (MoP), Government of India (GoI) notified (18 March 2005) Rajiv Gandhi Gramin Vidyutikaran Yojana (RGGVY) and appointed Rural Electrification

Corporation Limited (REC) as nodal agency for implementation of the scheme. There was no specific condition stipulated by MoP for providing soft loans under RGGVY. However, at the time of launching of RGGVY, a brochure issued by MoP *inter alia* included that 'REC has been designated as the nodal agency for implementation of the programme. All funds for the programme would be channelized through REC, which apart from the capital subsidy being provided by the Government, would give the remaining funds, as loan assistance, on soft terms.'

Instead of approaching MoP for further directions on the rate of interest to be charged on the soft loans to be provided under RGGVY and requesting MoP to make good the differential interest rate between the normal lending rate and rate of interest chargeable on soft loans under RGGVY, REC on the basis of above brochure issued by MoP, in its Board of Directors (BoD) meeting (30 August 2005) decided on its own, to provide loans to the State Governments at 5 *per cent* rate of interest as against the then prevailing rate of 8 *per cent*. No cost and impact analysis was carried out while deciding to charge concessional rate of interest under the RGGVY.

The issue of soft term loans was deliberated again by the Board on 7 September 2007 and in view of the increased cost of loans under RGGVY, it was decided that the lending rates under RGGVY needed upward revision and might be kept softer by only 50 basis points than those being charged by REC under T&D schemes.

Till December 2014, REC had suffered a loss of ₹ 153.36 crore[♦] on account of charging interest at the rates less than the rates applicable to normal rates applicable on similar REC loans from time to time. The loss of interest would continue to increase further till repayment of outstanding balances of RGGVY loan and further disbursement/repayments of soft loan, if any. REC being a separate listed commercial entity should have taken up the issue of reimbursement of differential interest cost on soft loans under RGGVY with MoP.

The Management stated (December 2014) that:

- Rate of interest of 5 *per cent* was being charged on the loan given under 'Accelerated Electrification of One lakh villages and One crore households' scheme which was later merged with RGGVY. REC released ₹ 557 crore only at 5 *per cent* per annum interest rate for three years up to 9 September 2007. Thereafter, loans were released only at 0.50 *per cent* per annum lesser than the then prevailing lending rate for T&D schemes. The changed interest rate to 0.5 *per cent* lower than the prevailing rates of interest was sufficiently covering the cost of borrowing as well as adequate spread for REC.
- RGGVY has a social objective to electrify the rural households and REC is a GoI Enterprise and also the nodal agency of RGGVY. Moreover, all RGGVY loans

[♦] ***The loss of ₹ 93.88 crore is worked out on the basis of difference between prevailing rate of interest (8 per cent to 10.90 per cent) of REC at the time of loans disbursed under RGGVY and 5 per cent being the rate charged on RGGVY loans between 31 January 2005 to 08 August 2007 plus ₹ 59.48 crore worked out on account of charging of rate of interest softer by 50 basis points than the rate of interest under T&D schemes on loans disbursed between the period from 27 September 2007 to 31 December 2014.***

are sanctioned to the State Govt. and not to the utilities. Major beneficiaries of these loans have been states like Bihar, Uttar Pradesh, Assam, Jharkhand etc. and the financial health of power sector in these states is in bad shape since these states are not able to develop the infrastructure due to lack of finance.

- The Government is supporting REC by allowing it to raise funds through Section 54EC capital gain tax exemption bonds and Section 88 Infrastructure Bonds at low rate.

The reply of the Management is to be viewed against the facts that:

- Adoption of rate of interest of 5 *per cent* charged under erstwhile scheme without any impact analysis under RGGVY was not justified. Further, MoP had not directed REC to bear the loss on account of extending soft loans under RGGVY. Even after enhancement of interest rate on RGGVY loans from 10 September 2007, REC suffered a loss of around ₹59.48 crore.
- REC confirmed that in the absence of CSR concept in existence at that time they were unable to claim the differential cost of soft loans as CSR expenditure. Therefore, it was desirable for REC to have first safeguarded its commercial interests before disbursing soft loans.
- The benefit of Section 54EC capital gain tax exemption bonds was available to REC even before the launch of RGGVY and MoP did not provide means of raising cheaper funds to REC as a compensation for soft loan to be disbursed by REC under RGGVY.

Thus, REC suffered a loss of ₹ 153.36 crore upto December 2014 as it did not approach MoP to reimburse differential interest on soft loans extended under RGGVY. The loss would further increase till the existing loan is fully repaid as well as depending upon further soft loan disbursements, if any, under RGGVY in future.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

CHAPTER V: MINISTRY OF STEEL

Steel Authority of India Limited

5.1 Investment of SAIL in Joint Ventures

5.1.1 Introduction

Steel Authority of India Limited (the company) had 23 Joint Venture Companies (JVCs) as on 31 March 2014 with total investment of ₹ 778.82 crore. Out of 23 JVCs, only seven[1] are fully functional of which three[2] are regularly generating profits. Seventy nine *per cent* (₹ 614.28 crore) of the Company's total equity investment was in two power JVCs viz NTPC-SAIL Power Company Private Limited (NSPCL) and Bokaro Power Supply Company Private Limited (BPSCL). Nine JVCs were formed in partnership with Central Public Sector Undertakings (CPSUs) and State Government/State owned companies. Remaining 14 joint ventures were formed with equity participation of 50 *per cent* or more from Private Enterprises which also had management control. Four JVCs[3] were being wound up. The company formulated its policy guidelines on entering into MOUs/JVCs in November 2013.

The objectives of this audit were to assess whether selection process of JV partners was transparent, fair and not disadvantageous to the interests of the Company and the JVCs had achieved the intended objectives of their formation. Audit examination covered 15[4] JVCs formed during 2007-2013, the records of which were available with the Company. Reply of the Company (January 2015) has been suitably considered in this report.

5.1.2 Audit Findings

5.1.2.1 Terms and conditions of JVC obligations were disadvantageous to SAIL

The Company formed two JVCs[5], one each at Bhilai and Bokaro in April 2007 and March 2008 respectively, with Jaypee Cement Limited (JCL) which had equity stake of 74 *per cent* and management control. JVCs were to use slag, a by-product produced in SAIL's Bhilai Steel Plant (BSP) and Bokaro Steel Plant (BSL) for making cement. Each plant was to supply 8 lakh tonnes of slag to the respective JVCs for the first 12 months and thereafter 10 lakh tonnes annually for five years after commissioning of the cement plant.

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[1] NTPC-SAIL Power Company Private Limited (NSPCL), Bokaro Power Supply Company Private Limited(BPSCL), M-Junction Services Limited, Bokaro Jaypee Cement Limited (BoJCL), Bhilai Jaypee Cement Limited, SAIL Bansal Service Centre Limited and SAIL SCL Kerala Limited

[2] NSPCL, BPSCL and M-Junction Services Limited

[3] North Bengal Dolomite Limited, UEC-SAIL IT Limited, Romelt SAIL (India) Limited, and North East Steel & Galvanising (P) Limited

[4] Bhilai-Jaypee Cement Limited, Bokaro-Jaypee Cement Limited,SAIL SCL Kerala Limited, S&T Mining Company Pvt. Limited, International Coal Venture Limited, SAIL RITES Bengal Wagon Industry Private Limited, SAIL & MOIL Ferro Alloys Private Limited, SAIL-SCI Shipping Private Limited, SAIL Kobe Iron India Pvt. Limited, SAIL-Bengal Alloy Casting Pvt. Limited, SAL SAIL JVC Limited, TMT SAL SAIL JV Limited, ABHINAV SAIL JVC LIMITED, VSL-SAIL JVC LIMITEDand SPU JV 'Prime Gold SAIL JVC Limited

[5] Bokaro Jaypee Cement Limited(BoJCL) and Bhilai Jaypee Cement Ltd

Prior to formation of JVCs, BSP and BSL were selling slag at market price through auction/open tender. Under the agreements, the initial selling price of slag to be supplied from BSP and BSL to JVCs was fixed at a mutually agreed rate of ₹ 160 and ₹ 312 per tonne, respectively based on prevalent market price. Annual revision of selling price of slag was not market driven but linked to changes in the cement index issued by RBI. It would be seen from Table-1 that there was volatility in slag market prior to JVC agreement and later years. After formation of JVCs, market price of slag increased sharply which was 2-3 times higher than the indexed selling price charged from JVCs. At the same time, BSP and BSL also sold surplus slag to other buyers at the prevalent market price. Bhilai based JVC procured 60,642 tonnes slag during 2013-14 from BSP outside the JVC agreement at ₹ 750 per tonne besides 8,50,426 tonnes at RBI indexed price of ₹ 190.27 per tonne.

Table 1: Details of slag output, slag sold to JVCs and other buyers, and selling price

Year ended on 31 March	Bokaro Steel Plant					Bhilai Steel Plant				
	Total slag produced (tonne)	Qty. of slag sold to (tonne)		Selling price ₹ per tonne sold to		Total slag produced (tonne)	Qty. of slag sold to (tonne)		Selling price ₹ per tonne sold to	
		Other buyers	JVC	JVC	Other buyers		Other buyers	JVC	JVC	Other buyers
2006	732765	724351	-	-	244-351	1363871	1637900	-	-	155-161
2007	711471	642050	-	-	256-369	1345160	1563911	-	-	155-161
2008	791497	746165	-	-	275-305	1601651	1561210	-	-	155-207
2009	756046	760718	-	-	275-305	1571425	1682978	-	-	207-228
2010	819380	808517	-	-	320-705	1708756	1649163	3551	160	207-400
2011	693758	669598	-	-	500-758	1761920	1324674	416386	160.00	400
2012	592361	309275	244961	336.65	517-768	1696888	896589	835509	172.68	450
2013	660705	21028	690004	351.04	1220	1693352	961378	850330	180.05	520-750
2014	915708	3,670	834193	444.24	1220	1736283	706626	850426	190.27	750-800

Selling prices so fixed were to be re-visited after 5 years from July 2009 for BSL and December 2009 for BSP subject to fulfillment of certain conditions which as per Company's own assessment, may not be fulfilled in case of BoJCL. Initial selling price fixed in 2006-07 was not revised upward despite SAIL losing substantially on sale of slag to JVCs. Thus, as a result of disadvantageous transfer pricing terms, the Company lost ₹ 156.58 [♥] crore up to the year 2013-14.

The Company stated (January 2015) that the JVC partners in both plants were selected through open tender and highest premium offered; initial selling price fixed by management and revision thereon were included in the tender documents; there was volatility in selling price of slag and it was difficult to predict market prices of slag; the price variation clause based on cement index issued by RBI/Office of Economic Advisor is a standard clause which is operated by SAIL plants to revise the slag prices being

[♥] ***Slag sold to JVCs multiplied by excess of market driven selling price (Weighted average taken) charged from other buyers over RBI/Economic Advisor indexed selling price (Weighted average taken) charged from JVCs*** supplied to customers under open tender; and in November 2014, SAIL and JAL had sold their total equity stake in BoJCL to another company.

Reply needs to be viewed against the following facts:

Agreements between two entities either made as a prelude to JVC formation or later should not have any commercial term that compromises the principle of arm's length transaction. Transfer price of slag should be the same as if two companies involved were independent. Thus, selling price of slag should have been left to market dynamics. The MoU for supply of slag under open tender to customer other than JVCs was for comparatively lesser quantity and short duration. BoJCL had started their commercial production in July 2011. During 2012-13 and 2013-14, BoJCL procured maximum slag from BSL, and on the strength of 2-3 times low price of slag charged by BSL (compared to market price), JVC not only registered a net profit of ₹ 136 crore and ₹ 30.62 crore, but had also driven its equity capitalization higher to ₹ 892.78 crore from ₹ 133.65 crore. While higher capitalization benefited JCL with a gain of ₹ 561.76[1] crore, SAIL could gain ₹ 197.37[2] crore on sale of its 26 *per cent* equity.

5.1.2.2 Performance of Joint Venture Companies

As of 31 January 2015, 12 JVCs[3] with equity participation of ₹ 42.77 crore did not start their commercial operations. Intended operational objectives of JVC formation were not achieved. There was lack of commitment among the JVC partners, financial support to JVCs and commercial terms for provisions of goods/services were not clearly firmed up before formation. The current status of these JVCs is given below:

(a) International Coal Venture Limited (ICVL)

ICVL was formed in May 2009 with SAIL, Rashtriya Ispat Nigam Limited (RINL), Coal India Limited (CIL), NMDC Limited (NMDC) and NTPC Limited (NTPC) as JV partners for securing metallurgical coal and thermal coal asset from overseas. Largely governed by SAIL nominated executives, ICVL did not acquire any foreign coal assets in the initial five years of operation. ICVL was expected to achieve supply of metallurgical coal to the extent of 10 *per cent* of requirements for 2019-20 of SAIL and RINL from its overseas assets by 2011-12. The goal of ICVL was on paper until July 2014 when it acquired coal assets of Rio Tinto Coal Mozambique. Audit noted that out of five JVC partners, CIL and NTPC did not show interest in overseas acquisitions as their priority was thermal coal and not metallurgical coal. As a result SAIL's financial exposure to ICVL increased disproportionately to 49.43 *per cent* (₹182 crore) as on 30 September

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[1] ***Excess of sale value of equity shares (₹ 660.66 crore) over ₹ 98.90 crore contributed towards 74 per cent equity.***

[2] ***Excess of sale value of equity shares (₹ 232.12 crore) over ₹ 34.75 crore contributed towards 26 per cent equity.***

[3] ***S&T Mining Company Pvt. Limited, International Coal Venture Limited, SAIL RITES Bengal Wagon Industry Private Limited, SAIL & MOIL Ferro Alloys Private Limited, SAIL-SCI Shipping Private Limited, SAIL Kobe Iron India Pvt. Limited, SAIL-Bengal Alloy Casting Pvt. Limited, SAL SAIL JVC Limited, TMT SAL SAIL JV Limited, ABHINAV SAIL JVC LIMITED , VSL-SAIL JVC LIMITED and SPU JV 'Prime Gold SAIL JVC Limited***

2014 from the agreed 28.6 *per cent*. SAIL approved (July 2014) further equity investment of ₹ 1,000 crore in ICVL.

The Company stated that: (i) as a matter of commercial prudence, it did not buy foreign coal assets prior to 2014 because prices of metallurgical coal were very high during 2009 to 2015; (ii) ICVL had acquired first coal assets in July 2014 i.e. coal block from Rio Tinto Coal Mozambique; and (iii) a proposal for restructuring ICVL was under consideration of Ministry of Steel, Government of India in which CIL and NTPC were not included.

Reply needs to be viewed against the following facts:-

(i) JVC had participated in bidding process for acquiring coal assets in Australia and Mozambique during 2010-14. Bids were not finalised as the project was held up by the seller due to depressed market condition; the JVC backed out from bidding process citing steep fall in prices of coking coal; and JVC was priced out in bidding process,

(ii) due to delayed acquisition, intended benefits were not achieved, and

(iii) exclusion of two partners would enhance the financial risk of the Company in the JV.

(b) SCI Shipping Private Limited (SSPL)

The stated goal of the Company for forming a JVC (May 2010) in partnership with Shipping Corporation of India (SCI) was to acquire ships for shipping imported coking coal for its plants which was not achieved even after more than 4 years of formation. Audit noted that the decision on acquisition of the vessel was pending as SCI was not in a position to provide the corporate guarantee to JVC for raising debt and a study was required on infrastructure for berthing/discharging of cargo from ‘Capesize’ vessels in India. Adequate arrangements with regard to commercial terms and conditions, infrastructure requirements, and debt arrangement also were not decided upfront with the SCI. SAIL, the hirer of the JVC vessels, stated that ‘cost plus’ arrangement proposed by SCI was not acceptable as the rates would be more than the prevailing market rates. The reply may be viewed against the fact that market conditions were the same that were prevailing at the time of formation of JVC and the Company should have considered financial aspects before entering into JV mode.

(c) SAIL & MOIL Ferro Alloys (Pvt.) Limited (SMFAL)

The Company formed (July 2008) a JVC with a CPSU viz Manganese Ore (India) Limited (MOIL) to set up facility for production of Ferro Manganese (Fe-Mn) and Silico manganese (Si-Mn) for captive use in its steel plants. Capital outlay was ₹ 365 crore and the project was to be completed within 22 months. The Company, however, kept on changing its requirements. Initial plant configuration included furnaces of 2x27 MVA for Si-Mn and 1x16.5 MVA for Fe-Mn. After finalization of L-1 tender, the Company asked (August 2012) JVC to set up only Si-Mn furnaces of 2x45 MVA which was not pursued. Ministry of Steel’s proposal (October 2013) for merger of SMFAL and RINL-MOIL (another JVC of MOIL with RINL) for setting up 3 x 45 MVA furnaces to meet the Si-Mn requirements of SAIL and RINL was also not found viable due to prevailing cost of power and a proposal for captive power plant in the PPP mode was under consideration of

JVC. Thus, a JVC formed in 2008 failed to achieve the stated objective of becoming captive supplier of Si-Mn to SAIL. The reply of Company that it could buy only where the price of ferro-alloy offered by JVC was less than the market price and it was adding own capacity for production of Si-Mn to meet its enhanced requirement clearly indicates that JVC may not commence its operation in near future.

(d) S&T Mining Company

The Company formed a Joint Venture (S&T Mining Company) with Tata Steel in September 2008 with 50:50 equity participation to leverage their strength in coal mining. No study was conducted to assess the suitability of projects prior to entering into JVC which was to develop 50 lakh tonne per annum mine with modern washery to produce 20 lakh tonne per annum of clean coal. No coking coal block was established by the JVC even after six years from investment of ₹ 25.88 crore defeating the primary objective of securing raw material availability. Initially JVC wanted to develop medium coking coal blocks of Central Coalfield Limited for captive use but did not succeed. Later it signed with Bharat Coking Coal Limited to revive their 40 years old Bhutgoria colliery having 6.83 million tonnes reserve of coking coal which did not take off since November 2010. JVC incurred losses amounting to ₹ 13.41 crore during 2008-09 to 2013-14 and 52 *per cent* of Company's investment has since been wiped out.

(e) Steel Processing Units (SPUs) set up as JVC with private enterprises

The Company decided to set up 5 SPUs in JV mode with 74 *per cent* equity stake of private enterprises and management control. Each SPU was to convert semi-finished steel (billets) into one lakh ton of TMT bars/rounds per annum. SAIL's financial exposure in these 5 SPUs is given in Table 2:-

Table 2: SAIL's financial exposure to 5 SPUs as of 31 December 2014

(Unit: ₹ in lakh)

Name of Joint Venture Company	JV Partners	Date of Formation	Equity Participation (*per cent*)	Total Investment	Present Financial exposure (*per cent*)*
SAL SAIL JVC Limited. (Lakhimpur)	SAIL	February 2012	26	79.30	96
	SAL		74	3.70	4
VSL-SAIL JVC Limited. (Ujjain)	SAIL	October 2012	26	27.18	35
	VSL		74	49.45	65
PRIME GOLD SAIL JVC Ltd. (Gwalior)	SAIL	December 2012	26	260.00	26
	PGI		74	740.00	74
TMT SAL SAIL JV Limited. (Barabanki)	SAIL	February 2012	26	1.30	26
	SAL		74	3.70	74
ABHINAV-SAIL JVC Limited (Hoshangabad)	SAIL	May 2012	26	56.00	100
	Abhinav		74	Nil	0

Includes contribution towards cost of land and advance against equity

Though land was arranged by the Company for four JVCs[1] prior to formation, three JVCs[2] had not started even plant acquisition activities. Reason for selection of Barabanki over other locations was not found on record and JVC has made no progress after formation.

(i) The following inadequacies were noted in JVC formation:

- JVC partners did not contribute equity capital in the agreed ratio. As could be seen in Table 2, financial exposure of the Company in three JVCs was significantly higher than the agreed equity participation ratio. The Company should have ensured that the private enterprises bring the corresponding funding/assets to agreed ratio;
- As per shareholders' agreement, the JVCs were to formulate and adopt a business plan within 60 days of formation, indicating time scales, detailed project cost estimates, financial projections and scheme of financing and timing of capital contributions from the shareholders. This was, however, not done even after 2 years of their formation;
- The Company selected M/s VSL as a JV partner for Ujjain which was involved in misappropriation of 'semis' handed over for conversion into TMT under another contract where ₹ 8.51 crore had remained unrecoverable. The case was under litigation which raises question on the procedure of selection of JV partner.

5.1.2.3 Monitoring mechanism and corporate governance issues

SAIL Board Sub-Committee on Strategic Alliance and Joint Ventures was constituted to evaluate the proposals and monitor performance. Members of senior Management of the Company were on the Board of JVCs. During 2007 to 2014, SAIL Board considered the performance of JVCs only twice i.e. in August 2012 and June 2014. Despite adequate management structure, there was no effective oversight over the affairs of JVCs and JV mode of partnership was not successful. Of the 23 JVCs formed, only seven were functional, 12 could not start commercial operation and four were being wound up.

Conclusions

- **Annual price revision formula of slag transferred to BoJCL and BJCL was not beneficial to SAIL as it was not market driven.**
- **12 JVCs with investment of ₹ 42.77 crore did not start commercial operation.**
- **Financial exposure of SAIL would increase in ICVL after restructuring due to exclusion of CIL and NTPC.**
- **More than 52 *per cent* of SAIL's investment has been wiped out in S&T Mining Company.**
- **Despite adequate management structure, there was no effective oversight over the affairs of JVCs.**

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[1] *SAL SAIL JVC Limited (Lakhimpur), VSL-SAIL JVC Limited(Ujjain), PRIME GOLD SAIL JVC Limited (Gwalior) and ABHINAV-SAIL JVC Ltd (Hoshangabad)*

[2] *SAL SAIL JVC Limited (Lakhimpur), VSL-SAIL JVC Limited(Ujjain) and ABHINAV-SAIL JVC Ltd (Hoshangabad)*

The matter was reported to the Ministry in January 2015; their reply was awaited (March 2015).

5.2 Performance of Coke Oven Batteries

5.2.1 Introduction

Steel Authority of India Limited (SAIL or Company) in its five integrated steel plants[1] had 33 Coke Oven Batteries (COBs or battery) as on March 2014. The main function of COBs is to convert coal into coke which is used as the primary fuel and reducing agent in the Blast Furnaces (BF) for production of hot metal. The process of carbonization of coal in COB yields some by-products (a) namely 'Coke oven gas' (CO gas) which has a high calorific value and is used as a fuel in production shops like BFs and Rolling Mills[2] for heating purposes, (b) coal chemicals like Ammonium Sulphate, Crude Tar and Crude Benzol which are saleable in the market after some processing. Thus, efficient performance of COBs is critical for steel making in downstream plants.

Each battery is fitted with average 60-90 ovens[3]. The production performance of a battery depends on the no. of ovens available for operation vis-a-vis ovens installed as well as duration of actual coking time[4] and actual oven pushings[5] against standard norms. Some of the ovens were not working due to poor health or otherwise down for repairs, hence oven availability was less than Nos. of ovens installed. Less oven pushing caused by poor health of COBs had adverse impact on production of BF coke which in turn affected the production of hot metal.

Audit assessed the performance of COBs, adequacy and effectiveness of repair and maintenance measures implemented by the Company along with performance of rebuilt batteries (2007 to 2012) in the five integrated steel plants covering the period 2009-10 to 2012-13 and updated the status upto 31 March 2014. Replies of the Company/Ministry received in February 2013 and March 2014, respectively, have been suitably incorporated.

5.2.2 Audit Findings

5.2.2.1 Production performance of COBs

The Expert Committee on Coke Making (ECCM) of the Company annually fixed the norms for number of oven pushing per day, yield of coke oven gas and other by-products, energy consumption etc. Based on this assessment, annual plan for production of BF coke is prepared. The Company, however, did not achieve targets of planned production of

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[1] Bhilai Steel Plant (BSP), Bokaro Steel Plant (BSL), Rourkela Steel Plant (RSP), Durgapur Steel Plant (DSP), IISCO Steel Plant (ISP)

[2] Rolling mills are the units where finished steel is produced

[3] COBs in various plants have different nos. of ovens installed like BSP has 10 COBs with 65 ovens in 8 COBs and 67 ovens in 9th &10th COB, BSL has 8 COBs with 69 ovens, DSP has 5 COBs with 78 ovens, RSP has 6 COBs with 70 ovens in battery 1 to 3 while 80 ovens in battery 5 and 67 ovens in battery 6 and, ISP has 3 batteries with 78 ovens and 1 battery with 74 ovens.

[4] Coking time is the duration of time taken by COB to convert coal into coke.

[5] Oven-pushing is a process of removing coke from coke ovens

8.703 million tonnes (MT) and there was shortfall of 3.320 MT of BF coke during the period, 2009-10 to 2013-14.

The reasons for short production of coke were analysed in Audit and it was noted that the production was less due to less oven pushing. Actual oven-pushings per day vis-a-vis. norms fixed in APP in five integrated steel plants was as follows:

Table 1
Planned Vs. Actual Oven Pushings

Years	**2009-10**	**2010-11**	**2011-12**	**2012-13**	**2013-14**
Planned	2023	2081	2082	1858	1870
Actual	1963	2032	1869	1759	1855

It was seen that targets for oven pushings decided by respective plant managements were not achieved due to deterioration in operational health of COBs. This led to loss of production of 2.125 MT of BF coke. Deterioration in health of COBs was due to delay in routine and timely repair and maintenance (Para 5.2.2.2).

Out of 33 COBs (refer footnote 1 in para 5.2.1) installed in five integrated steel plants, 26 COBs including two new[1] COBs were in operation as on 31 March 2014, two COBs were under rebuilding[2] (BSL #7, & RSP #3), three COBs were under cold[3] repairs (BSP #9, BSL # 3 & ISP # 8); one COB was under hot[4] repairs (DSP # 1); and one COB was closed (ISP # 9). **Table 2** shows that out of 26 COBs in operation, 7 ½ (29 *per cent*), 8 ½ (33 *per cent*) & 9 ½ (37 *per cent*) COBs were not performing to their effective capacity[5] in 2011-12, 2012-13 and 2013-14 respectively.

Table 2
Ineffective performance of COBs in BSP, BSL, DSP and ISP during 2011-12, 2012-13 and 2013-14

	2011-12								**2012-13**									**2013-14**									
Plant	**BSP**			**BSL**		**DSP**		**ISP**	**BSP**		**BSL**				**DSP**		**ISP**	**BSP**		**BSL**				**DSP**			**ISP**
(A) Position of Ovens available vis-à-vis ovens installed																											
Battery Serial No.	**1**	**7**	**10**	**3**	**7**	**1**	**4**	**9A**	**7**	**10**	**3**	**5**	**6**	**8**	**1**	**4**	**9A**	**7**	**10**	**3**	**5**	**6**	**8**	**1**	**4**	**6**	**9A**
Ovens Installed	65	65	67	69	69	78	78	39	65	67	69	69	69	69	78	78	39	65	67	69	69	69	69	78	78	78	39
Average available Ovens	58	29	38	54	50	58	40	37	44	45	35	57	65	59	57	61	37	55	63	22	38	42	60	48	59	57	37
(B) Average[6] actual coking time vis-a-vis prescribed norms																											

[1]installed in RSP and ISP in 2013

[2]When the extent of damage spreads to almost all areas of the oven complex and no amount of repair could sustain the COB, rebuilding plans have to be undertaken.

[3]Cold repairs are done by cooling down the ovens and resorted to when hot repairs are not possible and a techno-economic feasibility favours it vis-a-vis rebuilding of the battery.

[4]Hot repair is carried out under the hot condition to contain the battery dimensions within the workable limits, while maintaining the coke production in the remaining part of battery.

[5] Effective capacity of a COB is measured by the nos. of Coke ovens available for operation vis-a-vis ovens installed as well as actual coking time and actual oven pushings against standard norms which are fixed by Plant management keeping in view the actual condition of batteries.

[6]The batteries in operation for six months or more have been considered for calculating averages included in Table 2.

Norms for coking time	18	18	18	25	22	20	20	23	18	18	25	19	19	20	20	20	23	18	18	25	20	22	21	20	20	20	22
Average actual coking time	22	24	18	23	23	21	20	23	22	19	25	22	21	20	20	20	21	28	21	25	22	20	19	22	22	21	23
(C) Average[6] actual oven pushings vis-a -vis prescribed norms																											
Norms for pushing per day	87	87	89	46	74	85	61	40	87	89	36	85	84	83	72	61	35	87	89	25	37	61	71	30	63	60	21
Average actual Oven pushings	65	30	51	52	45	67	48	38	48	57	34	58	71	66	67	72	42	47	72	21	41	45	72	52	66	65	39

As seen from the table, in BSP, BSL, DSP and ISP fewer ovens were available for operation compared to the number of ovens installed. Coking time was more and /or oven pushings were less than expected norms resulting in poor production performance of batteries.

5.2.2.2 Delay in repairs and maintenance of COBs

COBs are re-built after 20-25 years of their operations. Average normal life of new or re-built COBs is about 20-25 years which can be maximised to 30-35 years by an effective preventive maintenance regime, hot repairs or cold repairs as per the battery condition. Fourteen COBs were 20-42 years old since their installation or last rebuilding.

There were delays in taking up capital repairs of poorly performing COBs. The Company did not take up maintenance of COBs as planned since the number of COBs available was not sufficient for planned production of coke. Resultantly, their performance deteriorated impacting the health of other functioning COBs. Plant wise position of rebuilding/repairs plans and delay in their execution is as under:

(a) BSP, Bhillai

COB # 5	Installed in 1965, it stopped production in 1998, Board accorded approval for rebuilding in 2004. Though the scheduled completion was January 2007, battery was commissioned in August 2009 with delay of 32 months. There was delay in basic and detailed engineering, supply of equipment and lack of coordination between consortium partners.
COB # 6	Installed in 1966, it stopped production in October 1994. Board accorded approval for rebuilding (July 2008), after 14 years. Though the scheduled completion was March 2010, battery was completed in June 2011 with delay of 15 months. The delay was on account of late supply and rejection of fire clay, silica bricks and equipment.
COB # 9	It was commissioned in 1988 and Hot Complex repair of the battery was done during 1999-2002. Expected life of the battery after Hot Complex repairs is about 6-7 years. According to Comprehensive Project Feasibility Report (CPFR) COB-9 was due for rebuilding in the period 2008-09 to 2010-2011. But the rebuilding work was deferred to fulfill the coke requirement. Consequently, health of this battery further deteriorated and it was closed down in April 2011. Company accorded approval for cold repairs in July 2012 after lapse of 15 months.

Abnormal delay in rebuilding of COB-5 and 6 had adverse impact on the health and performance of other operating batteries resulting in reduced availability of coke. Rebuilding of COB-1 planned in October 2004 was not done. Cold repairs of COB-4 (planned for 2006-07) were deferred. Due to prolonged use of COB-7, COB-8, COB-9 and COB-10 without required repairs, their health deteriorated substantially and resulted in bunching of down batteries.

(b) BSL, Bokaro

COB # 5	Board first accorded in-principle approval in 1997 for rebuilding. However, on account of depressed market conditions, tendering was delayed for 5 years until 2002. Thereafter tenders were cancelled due to higher prices. After further delay of 2 years, fresh in-principle approval was accorded in May 2004. The battery was not commissioned before September 2007, i.e after 10 years from being identified for rebuilding.
COBs # 1 & # 2	Delay of 16 and 24 months was noticed in rebuilding of COB-1 and COB-2 due to reasons such as late handing-over of site to the contractor, delay in submission and approval of drawings, supply of oven machines and refractory bricks, and start of refractory erection work.
COB # 3	This was 13 years old since it was last rebuilt and number of oven pushings was falling due to deterioration in its operational health. It was not put to cold repairs till December 2013.
COBs # 6 & # 8	COB-6 and COB-8 were 32 and 21 years old respectively since their commissioning and health of both the batteries had deteriorated in absence of rebuilding/repairs.

(c) DSP, Durgapur

COB # 1 and # 4	Over 20 years had lapsed since their last rebuilding on the plea that number of operational batteries was less. Cold repairs of COB 1 (2003) and COB 4 (2001) did not restore their performance. As per the project feasibility report (2007), COB 1 and 4 were to be rebuilt during 2011-13 and 2008-11 respectively. However, instead of rebuilding, only COB-1 was put to hot repairs (December 2013).
COBs # 2, # 5 & # 4	DSP prepared rebuilding plan for three COBs (2, 5 and 4) which were to be completed by 2011. But rebuilding of only one battery (COB-2) was initially undertaken and completed in November 2013, while rebuilding of COB-5 (Block 5A & 5B) was approved not before November 2012 (with implementation schedule of 30 months) and rebuilding of COB-4 not yet started (February 2015).

(d) ISP, Burnpur

COB # 9A	It was over 22 years old since its last rebuilding. It could not be put to further repairs or rebuilding, pending completion of cold repairs of other battery (COB-8). This had resulted in further deterioration in its operating condition, until it was permanently closed down in March 2014.
COB # 8	As per Action Plan 2011, to improve health of COBs and Oven pushing COB 8 was planned for Hot repairs from April 2012 to be completed in 18 months. However, the same was under repairs (February 2015).
COB # 10	Board approved (2006) rebuilding of COB-10, which was completed in 2010 with delay of 11 months from scheduled completion. The reason for delay was attributed to failure of consultant (MECON) in estimation of civil works which were more than the original estimates; besides poor performance of contractor (HSCL) which led to termination of contract.

Audit observed that in order to achieve the short term goal of ensuring adequate and uninterrupted supply of BF coke, the Company considerably delayed the required shutdowns for repair/re-building. Prolonged and overuse of COBs without timely repair/re-building had resulted in further deterioration in their health as well as that of other operating COBs.

5.2.2.3 Effects of poor health of COBs on yield of BF Coke and by-products

Production of BF coke from COBs was less due to poor oven-pushings (Para 2.1) which resulted in less availability of inputs in downstream plants. Three steel plants BSP, BSL and DSP, therefore procured 2.487 MT of BF coke from market (excluding inter-plant transfer) during 2009-10 to 2013-14.

The yield of Coke Oven Gas (CO Gas), which is a by-product generated during the carbonization of coal in the COBs, was less than the yearly norms fixed during 2009-14. Less availability of CO Gas resulted in unutilized production capacity in rolling mills of BSP, BSL, DSP and ISP and consequent production loss of 2.430 MT of saleable steel. Additionally, due to less yield of CO Gas, BSP had incurred ₹ 202.85 crore on purchase of 39,134 Kilo litre furnace oil as a substitute for CO Gas, in Plate Mill during 2009-13.

Low yield of CO Gas also meant low yield of coal chemicals like Ammonium Sulphate, Crude Tar and Crude Benzol which are generated as by-products during the carbonization of coal in COBs. These by-products were saleable in the market after some processing and some quantities were used internally. Yield of the by-products was lower in all the plants compared to norms annually fixed. Resultantly, the Company could not produce 64309 tonnes of Crude Tar, 77282 tonnes of Crude Benzol/Benzol products and 121897 tonnes of Ammonium Sulphate during 2009-10 to 2013-14 having a potential market value of ₹ 517.79 Crore.

5.2.2.4 Performance of recently built batteries in BSL and ISP

Performance of rebuilt COBs 5, 1, and 2 in BSL, and COB-10 in ISP was below their guaranteed performance parameters and thus resulted in shortfall in availability of BF coke. Audit noted that:

(i) COBs- 5, 1 and 2 of BSL were rebuilt in September 2007, June 2011 and February 2012 respectively and guaranteed parameters for coking time and pushing were 16.9 hours and 98 ovens per day respectively. Defects in COB-5 were noticed immediately after its rebuilding in 2007. The battery achieved coking time between 21.40 - 22.21 hours and 74 to 78 pushing during 2007-08 to 2011-12. Its performance further deteriorated to 58 oven pushings per day during 2012-13. Even after Hot Complex Repair in September 2013, it achieved pushings of 70 ovens per day and coking time between 21.16 to 23.46 hours till March 2014. During 2011-12 to 2013-14, COB-1 and 2 achieved average oven pushings of 65-90 ovens per day and took average coking time in range of 18 to 19 hours or more.

(ii) COB-10 of ISP was rebuilt in August 2010 and envisaged performance parameters were 104 pushings per day and coking time of 18 hours. Actual oven pushings per day during 2011-12 and 2013-14 ranged between 83 to 91 and coking time was 20.4 hours to 22.5 hours during the same period. ECCM opined (January 2012) that such high coking time in a newly commissioned battery may not only deteriorate coke quality but may also adversely affect the health of COB.

5.2.2.5 Oversight and monitoring of COBs performance was inadequate

Though the Company discussed the status of batteries, future requirement of coke, action plan to improve the health of COBs and oven pushings in its 377th Board meeting held on 29 November 2011, the existing Plant level oversight arrangements like ECCM remained ineffective. There was no long-term plan for repairing/rebuilding of COBs specifying timely shutdowns required for repair and rebuilding.

The Company in its replies (February 2013) conceded that the main reasons for less production of BF coke and other by-products were less oven pushings caused by poor health of oven batteries; and low overall availability of COBs in some plants was due to bunching of their repair caused by their prolonged operation without repair. It further stated that shutting down of COBs for the required repairs or rebuilding would have reduced coke production to a great extent leading to more dependence on purchase of coke. Hot/cold repairs and rebuilding of COBs were planned in such a way to ensure continuous and adequate supply of BF coke. Ministry in its reply (March 2014) reiterated the views of the Company.

The reply only reinforces the audit observation that the Company did not provide timely shutdown of COBs for the repair/rebuilding which resulted in continuous deterioration of operational performance of defective COBs as well as affecting the health of other operating COBs.

Conclusion

In audit opinion, norms and planned production fixed by ECCM could have been generally achieved because these performance norms of COBs were mostly below the rated capacity and were fixed after assessing the availability of COBs and status of their current operational health. The Company, however, could not achieve these norms, resulting in shortfall of 3.320 MTs of BF coke from COBs during 2009-2014 against the plan. This factored in market procurement of 2.487 MT of BF coke (excluding interplant transfer) in three plants, namely BSL, BSP, and DSP during the same period. Less oven pushings due to poor health of COBs resulted in less production of 2.125 MTs of BF coke during 2009-14. Low availability of batteries was also due to bunching caused by prolonged operations without required repairs. Delays in repairing/rebuilding of COBs had a cascading effect on the health of other batteries and their condition further deteriorated due to deferment of scheduled repairs and prolonged use, in order to meet the immediate requirement of BF Coke. A long-term plan for repairs and rebuilding of COBs coupled with effective monitoring mechanism is required in all the steel plants to ensure good operational health of COBs.

5.3 Non-recovery of interest on differential excise duty

The Company failed to ensure recovery of interest charges of ₹ 61.94 crore on delayed payment of excise duty on long rails supplied to Indian Railways by not insisting a suitable clause in the MOU.

Steel Authority of India Limited (the Company) had entered (2003) into a Memorandum of Understanding (MOU) with the Indian Railways (IR) for supply of Long Rails/ Panels from its Bhilai Steel Plant (BSP). According to MOU, Chairman, Railway Board would decide the final price on the recommendation of the joint pricing committee of IR and the Company.

Scrutiny of records for the period January 2005 to March 2012 revealed that the Company had paid differential excise duty of ₹ 353.99 crore to Government of India along with interest amounting to ₹ 61.94 crore for supply of 51.79 lakh tonnes of rails. The Company recovered differential excise duty from IR but failed to recover interest charges as there was no such provision in the MOU with IR. Audit noted that final prices of rails were approved by the Railway Board in 6 months to 69 months after dispatch of goods. The prices finally fixed for supply were either higher or lower than the provisional prices. As a result, the Company paid differential excise duty and interest thereon where the final approved prices were higher than the provisional prices. Final prices for the rails supplied after 1 April 2012 were not approved by the Railway Board (February 2015).

The Company did not make any effort to recover interest charges or include an appropriate condition in the MOU to safeguard its claim for interest charges of ₹ 30.77 crore for the period January 2005 to December 2008 with IR. The Company belatedly realized its mistake and wrote a letter (May 2014) to IR seeking reimbursement of interest of ₹ 31.17 crore paid for the period, July 2010 to March 2012 which the latter refused (July 2014) stating that that they were not liable to pay any such interest. The Company after losing cases at lower judiciary has filed SLP in the Supreme Court (October 2010) where no relief by way of stay was given.

While attributing the delay in finalization of rail prices to IR, the Company stated (November 2014) that they had demanded the interest arising out from differential excise duty from the IR; Ministry reiterated (February 2015) the views of the Company.

The fact remains that the Company had failed to safeguard their financial interest by not insisting on a suitable clause in the MOU with IR to ensure recovery of interest on delayed payment of excise duty that had in turn, arisen due to delay in finalisation of price of rails by IR. This resulted in the Company incurring avoidable expenditure of ₹ 61.94 crore.

5.4 Under recovery of electricity charges

The Company did not recover electricity charges at the minimum of domestic tariff of State Electricity Boards (SEBs) for electricity supplies to employees in mines township in violation of Board approval which resulted in benefits of ₹ 30.32 crore to employees. The company also did not segregate electricity supply lines for industrial and domestic use.

Steel Authority of India Limited (SAIL) procures electricity from the concerned SEBs and supplies at subsidized rate to the employees residing in the company's township in Mines. Electricity cost (i.e. cost to the company) purchased from the SEBs was significantly higher than the amount recovered from the employees. In order to rationalise the electricity subsidy, the SAIL decided (23 March 2002) that the chargeable rate for electricity supply to the employees in township would be at least equal to the minimum of domestic tariff of SEBs w.e.f 1 April 2002. Audit reviewed the records of all the mines[♠] having townships (except Nandini and Hirri Mines) for 2008-09 to 2013-14 and noted that:

(i) Mine managements of Barsua and Kalta mines had implemented the Board decision. They also revised the electricity charges recoverable from employees periodically which were equal to or higher than the minimum domestic tariff fixed by the SEB. Effective March 2003 and August 2003, KIOM-MIOM[1] and BOM[1] management respectively revised electricity charges of executives at par with the minimum of domestic tariff of SEB. No further increase was made even when the concerned SEB had increased its minimum domestic rates. Gua mines periodically revised the electricity charges for executives. Eight mines, however, did not implement the Board decision and the electricity charges being recovered from employees were less than the minimum of domestic tariff fixed by SEBs. The employees were being charged fixed monthly amount which was less than the minimum of domestic tariff of SEBs and/or predetermined fixed units without any linkage with the actual consumption of electricity. As a result, mines employees received benefits amounting to ₹ 30.32 crore during 2008-09 to 2013-14.

(ii) Electricity for Industrial/ Commercial purpose is provided with High Tension Voltage Services (HT connection) and is charged at a rate higher than the rate at which domestic consumption is charged. Rajhara mines have separated domestic connection from industrial connection for electricity supply to township. The separation, however, was not done in other mines and they continued to pay energy charges for domestic use at industrial rate. The amount of extra expenditure on this account was not quantifiable in the absence of chargeable rate for domestic use.

In C&AG's Report No. 11 of 2007 it was reported that above decision (2002) of the SAIL was not implemented in Bolani mine. While electricity charges were revised in line with Board decision with effect from 1 August 2003 for executives, these were not revised from time to time when SEB had increased their rates. Electricity charges continued to be recovered from non executives at pre-determined rates, last revised in August 2008.

Ministry stated (March 2015) that: (i) necessary action is being initiated to increase the recovery rates of electricity for executive employees thereby complying with the SAIL Board directives; (ii) The exercise to revise the electricity charge for non-executive employees would be completed within six months; and (iii) In case of KIOM, MIOM and GOM due to practical difficulties, separation of domestic consumption from industrial lines is not feasible.

The reply of the Ministry may be viewed against the facts that (i) after the issue was pointed out to Ministry in December 2014 by audit, the SAIL management issued the recovery instructions for executives only in case of BOM, KIOM MIOM, KTR, and BNP-TDR mines, with retrospective effect from 5 October 2009, whereas the Board

♠ Kiriburu iron ore mines (KIOM); Meghahatuburu iron ore mines (MIOM); Bolani Ore Mines(BOM); Barsua iron ore mines (BIM) ; Kalta iron ore mines (KIM) ; Gua ore mines (GOM); Kuteswar limestone mines (KTR); Tulsidamar dolomite mines (TDR) ; Chasnalla Colliery; and Rajhara mines.

decision was effective from April 2002 and included both executive and non-executives. Similar actions have not been initiated in case of Rajhara mines and Chasnalla colliery, (ii) Citing of practical difficulties in separation of domestic consumption from industrial lines in case of KIOM, MIOM and GOM without any technical study is not acceptable because segregation of lines between industrial and domestic consumption was possible in Rajhara mines while it is under progress in BIM and BOM townships. The reply was silent on separation of lines in rest of the mines♥.

Thus, SAIL did not implement its decision of March 2002 to charge its employees in townships in Mines at minimum of the rate charged by SEBs for domestic consumption for electricity which resulted in conferring benefits amounting to ₹ 30.32 crore on its employees during 2008-14. The Company also did not segregate electricity supply lines for industrial and domestic use.

5.5 Blocking of funds

Failure of the management to provide requisite and timely shutdown of the sinter machines for replacement of old battery cyclones, led to suspension of work on Electro Static Precipitators since July 2010, resulted in blocking of funds of ₹ 26.91 crore for more than three and half years. BSL also could not meet the stipulated emission norms fixed by Central Pollution Control Board.

Sinter plant in Bokaro Steel Plant (BSL) of Steel Authority of India limited (SAIL or Company) has 3 Nos. sinter machines. Each sinter machine is attached with wind boxes, vaccum chambers, wind main ducts, 2 battery cyclones and 2 exhaust fans to control dust emission. Six battery cyclones in sinter machines had outlived their useful life, and dust emission from the plant was more (250-280 mg/Nm^3) than the statutory norm of 150 mg/Nm^3 fixed by the Central Pollution Control Board (CPCB). SAIL approved 'in-principle' (January 2005) replacement of the battery cyclones with Electro Static Precipitators (ESPs). After delayed finalization in scope of work, the contract was awarded (October 2007) to a consortium of M/s Hamon Research Cottrell, USA (Consortium Leader) and M/s Shriram EPC Limited (SEPC), India (Consortium Member), on a turnkey basis at a total cost of ₹ 75.16 crore.

Audit noticed that the stated goal of overall reduction in emission level was not achieved as only one ESP has been replaced so far; (February 2015) and ₹ 26.91 crore has remained blocked for more than three and half years due to failure of management to arrange shutdowns stipulated in the contract to install the remaining five ESPs. Detailed observations are as under:

- As per the contract, the schedule of implementation required that all six ESPs shall be installed one after another. First battery cyclone No. 6 of sinter machine 3 had to be dismantled after isolation. New ESP-6 would be installed in the location of this battery cyclone along with related dust disposal system and ducting. Thereafter, ESP would be connected to the sinter machine No. 3 and be

♥ *Bhwnathpur-Tulsidamar dolomite mines (BNP-TDR), Kuteswar Limestone mines (KTR), Kalta iron ore Mines(KIM) and Chasnalla Colliery* commissioned. One exhauster would be shut down for a maximum period of 5 months for dismantling and erection activities. The second battery cyclone of sinter machine No. 3 would be dismantled and replaced with ESP, battery cyclones of Sinter machine nos. 2 & 1 would be replaced one after another. The shutdown of each sinter machine would be given in phases in order to ensure uninterrupted sinter feed to blast furnaces. Contract also provided that M/s HRC consortium would require 5 months shutdown (including one week pre-shutdown and one week post-shutdown) time for dismantling each battery cyclone for each machine and installation and commissioning of ESP in its place.

- As per the project implementation schedule, first shutdown for ESP-6 was to be given in April 2008. BSL, however, took 21 months to grant first shutdown in January 2010. Apart from delays in preparatory works by the contractor, delay was largely attributed to BSL as there was change in scope of work; and the contractor was made to execute certain activities 'off-ESP' site (out of contract agreement), before shutdown, which otherwise could have been executed parallel to the main ESP erection work. After ESP-6 was installed, put to use and capitalized (June 2010) at a cost of ₹ 11.41 crore, BSL did not give other shutdowns to replace other five ESPs on the plea of loss of sinter production. BSL also changed the location of new ESP -1 which was not envisaged in the contract necessitating change in locations of other ESPs and consequent cost and time overrun.

- In the meantime, the balance amount of ₹ 26.91 crore were paid (up to July 2011) to the contractor for men, material and machines mobilized at the project site for reception of remaining ESPs, which has remained blocked for past more than three and half years (July 2011 to February 2015). Due to idling of men and machinery since June 2010, the contractor decided to withdraw from the site in January 2011and issued an arbitration notice which had been put on hold. After delay of two years, the BSL decided (May 2013) to provide shut down with effect from June 2013 for installation of ESP-5. Even this shutdown did not materialize as ESP locations were revised.

- It was noticed that CPCB (July 2011) had pointed out inadequacy in air pollution control equipments installed with sinter plants and issued direction to BSL under section 5 of the Environment (Protection) Act 1986, to commission ESP to ensure compliance to stipulated emission norms. On BSL's failure to comply with the above directions, CPCB not only forfeited the bank guarantee of ₹ 50 Lakh (January 2014), but also demanded (August 2014) another bank guarantee of ₹ 50 Lakh. CPCB also found (December 2014) that progress of work in respect of ESPs at sinter plant was grossly unsatisfactory and directed BSL to complete the work by August 2015.

- The Company stated that: (i) location of ESP was changed due to production requirements; and (ii) shutdowns for the remaining ESPs could not be provided because the contractor did not liquidate the defects of ESP-6, they did not conduct performance guarantee parameters on ESP-6 to demonstrate achieving dust content of 50 mg/Nm3, and the management could not risk sinter production by giving shutdown for ESP.

Reply is not tenable as: (i) the scope of work and location of ESPs were to be finalized upfront and not after award of contract (ii) new ESP-6 was being operated uninterrupted since 17 June 2010 and had achieved not only stack emission norms of 150 mg/Nm^3 of CPCB but gradually obtained guaranteed emission parameter of 50 mg/Nm^3. This was a turnkey contract, and sequence of replacement of six ESPs and the required shutdown was stipulated in the contract. Therefore, shutdown of existing facility was a contractual requirement to execute the work sequentially. Project Division of the BSL had also sought shutdowns from the user department for completing remaining five ESPs which was not granted on consideration of interruption in production. Delaying shutdown to avoid slippage in production was not only against the contractual provisions, but also resulted in non-achievement of the stated objective from this investment, i.e. to achieve the dust emission level in all six battery cyclone from 250-280 mg/Nm^3 to below the statutory norm of 150 mg/Nm^3.

Thus, failure of BSL to provide requisite and timely shutdown of the sinter machines not only led to violation of CPCB's emission norms but also resulted in blocking up of funds of ₹ 26.91 crore for more than three and half years.

The matter was reported to the Ministry in February 2015; their reply was awaited (March 2015).

5.6 Avoidable expenditure in ISP/SAIL

The Company had to incur an avoidable expenditure of ₹ 26.40 crore on major repairs after an explosion in boiler which had occurred due to non compliance with the contractual design parameters and advisories for boiler operation set by the equipment supplier.

IISCO Steel Plant (ISP) of Steel Authority of India Limited (the Company) awarded a contract to Bharat Heavy Electrical Limited (BHEL) in October 2007 for installation of Power and Blowing Station which included three boilers each of 200 ton per hour capacity. As per Clause 01.02.01 of the contract agreement, the boilers were designed for firing Blast Furnace (BF) gas, Basic Oxygen Furnace (BOF) gas, Coke Oven (CO) gas and Coal Bed Methane (CBM) as main fuel. Light Diesel Oil (LDO) was to be used for initial start up to 10 *per cent* rated capacity.

Gas from BF and BOF was not available due to delays in completion of BF and BOF projects. Coke Oven Battery-11 was ready and supply of steam from boilers was a technical requirement for pre-commissioning activities. The boilers were also ready. Keeping the design parameters of the boilers in mind, BHEL and the ISP management had mutually agreed in a meeting held on 15 February 2012 that the boilers would not be run continuously on LDO alone; the boilers could run on LDO continuously for maximum 7 days for charging of first chamber of Coke Oven Battery; and after an interval of 15 to 30 days, for further maximum 7 days for charging the second chamber. As noted below, the ISP management did not adhere to these design parameters risking safety of human life and equipment, and ignored repeated forewarnings and advisories on boiler operating instructions from BHEL resulting in an explosion in a boiler.

On specific demand from the ISP management, BHEL allowed the Boiler-3 to run continuously for 14 days from 5 December to 19 December 2012 with a condition that any deterioration in performance parameters at later date would be solely on the Company's account. This condition was in line with the Clause 26.2 of the contract which states that 'The Employer shall have the right to take possession or use any completed or partially completed work. Such possession or use shall not be deemed to be an acceptance of any work done not in accordance with the Contract. However, any damage to such work solely to such provision or use shall be to the employers account.' BHEL reminded the ISP management on 21 December 2012 that the boilers cannot be run on LDO alone and advised the ISP management to expedite completion of the other fuel lines i.e. BF and BOF gas.

The Boiler-3 was started again on 10 January 2013 and a minor explosion occurred in the boiler on 24 January 2013 because prolonged running of the boiler with LDO fuel alone had contributed to formation of fuel carryover and deposition which in turn promoted a secondary combustion. After repair the BHEL expert put some additional riders including 3-4 days shutdown to boiler every 10 days for inside cleaning and washing. After restoration the boiler was re-started on 4 February 2013 and it was running continuously with LDO and the clogging of valves/deposition of unburnt LDO was noted. However, the Company did not give shutdown requested on 3 March 2013 by BHEL to clear the same, and after a continuous run of 37 days, a major explosion took place on 12 March 2013 resulting in damage of the Boiler-3.

BHEL refused to repair the boiler without any extra cost citing provisions of clause 26.2 of the contract. The insurer too rejected insurance claim♣ twice citing negligence in operation of the boiler. The Company therefore had to award a contract to BHEL for repair of the boiler at a total cost of ₹ 26.40 crore inclusive of taxes and duties.

While denying negligence in running the boiler, the Company stated (November 2014) that incident of boiler explosion was merely an accident, and all the technical parameters required to run the boiler were duly taken care of. Discussion on the settlement of claim by M/s BHEL and ISP with the insurer was under progress.

The reply is not tenable as BHEL and insurer had noted violation of manufacturer instructions by ISP in operation of boiler which was found to be the cause of explosion. BHEL intimated (May 2014) to ISP that insurer had rejected the claim altogether citing reasons that were neither attributable to nor defensible by BHEL. No amount was realised against the insurance claim (February 2015).

It would be seen that Company operated the boiler in violation of manufacturer's recommendations which resulted in an explosion in the boiler. As a result the Company had to incur avoidable expenditure of ₹ 26.40 crore on restoration of damaged boiler.

The matter was reported to the Ministry in November 2014; their reply was awaited (March 2015).

♣ ***Insurance policy was taken by BHEL***

CHAPTER VI: MINISTRY OF TEXTILES

National Textile Corporation Limited

6.1 Loss due to deficiency in settlement

Entering into settlement agreement for sharing of land with the erstwhile owner, without ascertaining commercial viability, resulted in a loss of ₹ 205.01 crore.

National Textile Corporation (SM) Limited (the Company), functioning under the Ministry of Textiles (MOT), was declared a sick Company in 1993. Subsequently, under the provisions of Textile Undertakings (Nationalization) Act, 1995 (Act), various textile mills of the Company were nationalized including Shree Madhusudan Mills (the Mill), Mumbai. A scheme for revival of the Mill was sanctioned (2002) by the Board for Industrial and Financial Reconstruction (BIFR) and as per the envisaged scheme, the Mill was identified as unviable, which was to be closed and disposed of in order to fund revival of viable mills.

In the meantime, previous owners of the Mill viz. Hall & Anderson Limited (HAL) filed a writ petition in the High Court of Calcutta (October 2004) challenging its nationalization. HAL also challenged (2005) the rehabilitation scheme sanctioned by BIFR in the Appellate Authority for Industrial and Financial Reconstruction (AAIFR) on the ground that the Mill should not have been declared unviable. The appeal was dismissed by AAIFR (July 2006) against which a Special Leave Petition (SLP) was filed (2006) in the Supreme Court. An interim order was passed by the Supreme Court (December 2006) directing that the property should not be sold. HAL subsequently filed an application (June 2008) in the Supreme Court requesting for taking over the Mill as SPV/JV. Supreme Court ordered (22 July 2008) that if the petitioner approached the Company with a request for amicable settlement, the same may be considered and decision taken thereon may be placed before the Supreme Court. Pursuant to the order of Supreme Court, HAL filed a proposal (02 August 2008) for revival and rehabilitation of the Mill with the Ministry of Textiles (MOT) and the Company for an amicable settlement.

MOT directed the Company to obtain legal opinion before entering into any settlement. Accordingly, legal opinion of Attorney General of India (AGI) was obtained (October 2008) by the Company. As per AGI's opinion, the Company could consider the proposal for amicable settlement after thoroughly examining and scrutinizing all aspects of the proposal including its commercial viability and worthiness within the legal framework.

A committee constituted by the Company to examine the matter decided (November-December 2008) that land of the Mill could be shared in the ratio of 65:35 between NTC and HAL in line with the settlement previously made in the case of another mill, namely Kohinoor Mill. In consideration, HAL would pay ₹ 33.05♦ crore (35 *per cent* of ₹ 83.86

♦ ***Including ₹2.16 crore paid to Central Bank of India and ₹1.54 crore being statutory dues.***

crore plus all costs, charges, stamp duty for execution/registration of conveyance deed) based on realizable value of the land of ₹ 83.86 crore as mentioned in the BIFR Scheme. MOT approved (January 2009) the proposal on the condition that NTC should satisfy itself about the commercial viability as per AGI's advice. Further, the Company as per the decision of the Board of Directors filed the terms of settlement, in the Supreme Court (February 2009). Settlement amount of ₹ 33.05 crore was received by the Company during April to July 2009.

Audit examination revealed that:

- Despite AGI's categorical opinion to examine commercial viability and MOT's reiteration (January 2009) that the Company should satisfy itself about the commercial viability as per the Attorney General of India's advice, there was nothing on record to indicate that NTC had examined and protected its commercial interest. This is clear from the fact that the settlement amount arrived at by the Company, based on ₹ 83.86 crore as mentioned in the BIFR Scheme, was not the expected realization from the sale of assets as was claimed by NTC, but was only the balancing figure to meet the cost of the Scheme. This is corroborated by the fact that the Mill was valued in the same BIFR Scheme at ₹ 157.91 crore in 2002 and as per Stamp Duty Ready Reckoner Mumbai (2009) the rate for developed land was ₹ 86, 300 per square meter.
- Improper settlement with HAL led to loss of ₹ 205.01 crore to NTC based on rate of ₹ 86, 300 per square meter. Loss based on the reserve price fixed by NTC during the same year i.e in November 2009 for land of another mill (Bharat Mill) in the same area would work out to ₹ 577.02 crore[♥] (**Annexure-XX**).
- Detailed settlement terms were communicated by NTC to MOT (December 2008), including settlement amount, the basis of which was not evaluated by MOT and approval to the settlement was given by MOT (January 2009) with a condition that NTC should satisfy itself about the commercial viability as per advice of AGI.

NTC stated (Feb 2014) that as this was a settlement and not a sale transaction, the valuation of the property was not taken into account and only the sharing of the land was the ultimate outcome of the settlement.

Reply is not acceptable. Though it was a settlement and not a sale transaction, the Company/Ministry, while examining commercial viability, failed to arrive at any fair value of land, resulting in a settlement at a value much below the prevailing market price.

Thus, the decision of MOT/NTC to reach settlement ignoring the fact that the property was prime freehold land, without properly assessing its commercial viability, resulted in a loss of at least ₹ 205.01 crore to the Company.

The matter was reported to the Ministry in November 2013; their reply was awaited (March 2015).

[♥] ***Loss has been worked out with reference to 'Reserve Price' for Bharat Textile Mills. Bharat Textile Mills was, however, sold at ₹1505 crore (i.e. more than double of its reserve price in September 2010).***

CHAPTER VII- MINISTRY OF WATER RESOURCES, RIVER DEVELOPMENT AND GANGA REJUVENATION

National Projects Construction Corporation Limited

7.1 Inordinate delay in terminating projects

National Projects Construction Corporation Limited terminated contracts in respect of six roads on detecting fake documents submitted by the contractor and inordinately delayed termination of contracts for another 30 roads. This led to additional cost of ₹ 16.42 crore on re-tendering contracts for completion of unfinished work in respect of 19 roads.

National Projects Construction Corporation Limited (NPCC) entered (August 2004) into a tripartite agreement with the Ministry of Rural Development (Ministry), Government of India, and Government of Bihar for executing construction, commissioning and maintenance of roads in the state of Bihar under the Pradhan Mantri Gram Sadak Yojana (PMGSY), a scheme intended to enhance rural development by promoting access to economic and social services through developing all-weather road connectivity. NPCC, being implementing agency, was to receive fee @ 10 *per cent* of the total project cost of the awarded works (for construction and five years maintenance) from the Ministry. NPCC was assigned projects during 2004-05 to 2009-10 comprising execution of construction of 692 roads at a cost of ₹1,431.63 crore. Accordingly, NPCC invited open tenders as per Standard Bidding Document[1] (SBD) and awarded works to the various contractors from time to time.

Scrutiny of records (February 2014) revealed that NPCC terminated contracts in respect of 36 roads[2] having contract value of ₹ 81.59 crore during September 2010 to August 2013. In this connection, it was observed that:

- Clause 12.1 of Section 2–Instructions to Bidders under SBD stipulates submission of various documents along with bid including documents in support of qualification, experience, ownership of construction equipment etc. NPCC accepted bids of M/s Birendra Tiwari Construction in respect of six[3] roads (September 2009) without verification of documents prescribed under the SBD. Subsequently, on detecting that the contractor had submitted fake documents with the tenders, NPCC terminated contracts for three roads each in September 2010 and December 2010.

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[1] ***SBD prepared by National Rural Roads Development Agency and adopted by the Government of Bihar.***

[2] ***Buxar (8), Bhojpur (9), Rohtas (7), Patna (6) and Nalanda (6).***

[3] ***Buxar (3) and Bhojpur (3).***

- The date of completion of works was 12 months after start of work as prescribed under the SBD. However, the contractors did not complete the work in respect of remaining 30 roads within the prescribed time. However, NPCC did not initiate timely action for termination of these non-performing contracts. Subsequently, NPCC terminated these contracts with inordinate delays which ranged between 744 days and 1838 days after schedule dates of completion of the construction/contract.

- In case of termination of contract because of the contractor's default, General condition number 24 of contract under SBD stipulates recovery of 20 *per cent* of the value of unfinished work from the contractor on account of additional cost for completing the work. NPCC invited fresh tenders during July 2013 to January 2014 for completion of the unfinished works in respect of 19 roads out of terminated contracts for 36 roads involving an additional construction cost of ₹ 16.42 crore beyond contractor's liability of 20 *per cent*. This additional construction cost included ₹ 1.88 crore in respect of contracts for five out of six roads earlier awarded to M/s Birendra Tiwari Construction.

- NPCC requested (January 2014) the Ministry for approval of ₹11.16 crore as additional cost for completion of unfinished work of nine roads. While considering NPCC's proposal, the Ministry observed (February 2014) that there was negligence to terminate the contracts on the part of the Company as it took about five years to terminate contracts in 2012-13 against their awarding in 2007-08. The Ministry further stated that as per clause 12 (c) of the tripartite agreement, in case of escalation due to delay/negligence of NPCC, cost would be borne by it.

- NPCC again sent justification in support of their proposal and requested (February 2014) the Ministry to accord approval for additional cost involved in terminated contracts for nine roads. Subsequently, NPCC requested (March 2014) the Ministry for approval of additional construction cost of ₹5.26 crore in respect of balance 10 roads. The Ministry, while addressing NPCC's earlier request of January 2014 and February 2014 maintained that excess cost in the nine road works was not on account of material change in scope of work or quantities but solely because of time overrun and directed (March 2014) NPCC to bear the additional cost for the terminated contracts and complete the work satisfactorily at the earliest.

Thus, award of contracts in respect of six roads to an ineligible contractor without following the tendering procedure scrupulously, and inordinately delayed termination of other incomplete contracts resulted in time and cost overrun to the tune of ₹16.42 crore in respect of completion of unfinished construction work of 19 roads. Progress of work relating to balance contracts for 17 roads ranged between 20 *per cent* and 95 *per cent* and fate of unfinished work of these roads was yet to be decided (May 2014). Further, denial of the Ministry to approve the additional cost corroborates the fact that additional cost has to be borne by NPCC.

The Management stated (March 2014) that as per SBD, evaluation of technical bids was to be completed within five working days from the date of bid opening and there was no scope for verification of documents due to time constraint. Further, the PMGSY roads were located in remote villages, persistent law and order problem in rural areas contributed to delay in progress of work. The Management further stated (May 2014) that due to increase in cost of materials and closure of operating quarries in Bihar and inadequate release of fund from the Ministry, the contractors slowed down the work. As these factors were beyond their control, they were granted time extension to complete the work. The Management added that the Ministry was requested to approve additional cost for construction of 19 roads and NPCC would not execute the work if additional cost was not approved by the Ministry. NPCC also added that it had not awarded the work for these 19 contracts to any agency and, hence, there was no burden of additional cost as projected by Audit.

The Management's reply is not acceptable as the time schedule for bid evaluation was as per the SBD and was to be abided by. The additional cost was not on account of material change in the scope of work or quantities but solely because of time overrun as stated by the Ministry. The Management delayed termination of contracts leading to additional cost of ₹ 11.16 crore in respect of contracts for nine roads, which has to be borne by NPCC in terms of clause 12(C) of the Tripartite Agreement of August 2004. The Ministry also refused to accede to the Management's request and, therefore, the liability devolves on NPCC.

The matter was reported to the Ministry in December 2014; their reply was awaited (March 2015).

CHAPTER VIII- IRREGULARITIES IN PAYMENT OF ENTITLEMENTS AND RECOVERIES, CORRECTIONS/RECTIFICATIONS BY CPSEs AT THE INSTANCE OF AUDIT

8. Following significant instances of irregularities in payment of various entitlements and allowances to the employees of CPSEs were noticed in audit:

Oil and Natural Gas Corporation Limited, Hindustan Petroleum Corporation Limited, Bharat Petroleum Corporation Limited, GAIL (India) Limited, Indian Oil Corporation Limited and Engineers India Limited

8.1 Irregular payment towards encashment of Half Pay Leave/Earned Leave/Sick Leave as well as employer's share of EPF contribution on leave encashment

Encashment of half pay leave/sick leave/earned leave in deviation from DPE guidelines, resulted in irregular payment of ₹ 157.91 crore. Further, CPSEs made irregular contributions of ₹ 12.15 crore on account of provident fund in respect of leave encashment to employees in violation of the judgment (March 2008) of Hon'ble Supreme Court of India and instructions of Employees Provident Fund Organization. Further, one CPSE did not adjust the employer's share of contribution amounting to ₹ 14.94 crore on leave encashment paid prior to March 2008.

In line with the Department of Personnel & Training, GOI guidelines (October 1997) enhancing the ceiling for accumulation of Earned Leave (EL) to 300 days for Central Government employees, DPE allowed (August 2005) enhanced accumulation of EL up to 300 days for the employees of CPSEs. On a reference made by the Ministry of Shipping, DPE clarified to all the CPSEs on 26 October 2010 that employees of CPSEs were not permitted to accumulate EL for more than 300 days and CPSEs are not permitted to encash leave beyond 300 days at the time of retirement of its employees.

In September 2008, GOI allowed consideration of both EL and Half Pay Leave (HPL) for encashment for Central Government employees with effect from January 2006, subject to a limit of 300 days for both kind of leave taken together. In a further clarification of 17 July 2012, DPE referred to its instructions of April 1987 and reiterated that on retirement for CPSEs employees, EL and HPL could be considered for encashment subject to an overall limit of 300 days and that cash equivalent payable for HPL would be equal to leave salary as admissible for half pay plus dearness allowance and commutation of HPL would not be permissible to make up the shortfall in case EL to the credit of a CPSE employee was less than 300 days. Further, GOI guidelines do not permit encashment of sick leave, which has been reiterated by GOI in December 2012 and February 2014 also.

A. Audit observed that the following CPSEs deviated from the DPE guidelines and made irregular payment of ₹ 157.91 crore to their employees towards HPL/EL encashment on superannuation/separation over and above the ceiling of 300 days.

Administrative Ministry	Name of CPSE	Period	₹ in crore
Ministry of Petroleum and Natural Gas	Oil and Natural Gas Corporation Limited	April 2007 to March 2013	110.76
	Hindustan Petroleum Corporation Limited		10.39
	Bharat Petroleum Corporation Limited		17.64
	Engineers India Limited	April 2006 to March 2014	19.12
Total			**157.91**

ONGC stated (September 2013) that instructions issued by the Government are not automatically applicable to ONGC and being a Maharatna PSU, it was empowered to structure and implement schemes relating to personnel and human resource management, training, voluntary retirement schemes, *etc.* In view of this delegation of powers, ONGC Board is competent to introduce schemes relating to personnel and human resource schemes like Good Health Reward Scheme.

HPCL stated (January 2014) that unless otherwise specifically stated, the instructions and provisions pertaining to holidays and Leave Rules in Central Government offices/ establishments are not *ipso facto* applicable to Industrial DA pattern CPSEs. HPL policy in HPCL is administered only on medical grounds.

BPCL in its reply (October 2013) stated that encashment of HPL was introduced to ensure undisrupted supply of petroleum products to customers by avoiding absenteeism towards the end of the year or at the time of retirement merely with the intention of exhausting the leave. It also served as a reward for employees to maintain good health and who did not need to take 'full pay' sick leave, thereby facilitating round-the-clock working.

EIL stated (September 2014) that the provision regulating sick leave and its encashment at the time of superannuation is arising out of the operational needs and work requirement of the organization and was framed under the provisions of empowerment/flexibility to CPSEs for framing Leave Rules under the DPE Circular dated April 1987. It further added that nowhere till December 2012, it was mentioned that sick leave/half pay leave cannot be encashed at the time of superannuation. Even in GoI at the time of superannuation, commuted leave is encashable as a good health reward and the same subsequently along with earned leave has been limited to a ceiling of 300 days.

Replies are not acceptable as leave encashment beyond the overall policy of GoI was not permitted as per DPE instructions of April 1987. Further, DPE's circular of 26 October 2010 clarified that CPSEs were not permitted to encash leave beyond the overall ceiling of 300 days. In another clarification issued in July 2012, referring to instructions of April 1987, DPE reiterated that EL and HPL could be considered for encashment on superannuation subject to overall limit of 300 days. Moreover, clarification issued by

DPE in July 2012 specifically disallowed encashment of sick leave. Further, the contention that even in GoI service, commuted leave is encashable as a good health reward is not factually correct as in GoI Service, only leave on half pay (HPL) is permitted to be encashed to the extent the encashment of Earned Leave at superannuation falls short of prescribed ceiling of 300 days and HPL is not allowed to be commuted for the purpose of encashment.

Therefore, encashment of HPL to employees on retirement/separation beyond the overall ceiling of 300 days was in violation of DPE guidelines and was, thus, irregular.

The matter was reported to Ministry of Petroleum and Natural Gas (MOPNG) in September 2013, reply relating to irregular payment in case of HPCL and BPCL was awaited (January 2015), while MOPNG endorsed the view of ONGC in July 2014.

B. As per Employees' Provident Fund (EPF) and Miscellaneous Provisions Act, 1952, contribution to EPF included employer's contribution at the rate of 12 *per cent* of the basic wages, dearness allowance and retaining allowance (if any) paid to an employee and an equivalent amount towards employee's contribution which was to be recovered from the employees' salary. The question whether the amount of leave encashment paid to employees was to be reckoned as part of basic wages was contested by different stakeholders in various courts at various points of time. Bombay High Court[1] (September 1994) and the Karnataka High Court[2] (October 2003) held that leave encashment was to be reckoned as part of basic wages for the purpose of contribution to EPF. Employees Provident Fund Organization (EPFO) also advised (9 September 2005) its field offices to enforce the recovery of EPF contribution on leave encashment. On subsequent adjudication of the dispute, Supreme Court decided[3] (12 March 2008) that "basic wage was never intended to include amounts received for leave encashment" and directed that, "if any payment has already been made, it can be adjusted for future liabilities and there shall not be any refund claim since the fund is running one". In view of the judgment of Supreme Court ibid, EPFO conveyed (May, 2008) to all its field offices to discontinue provident fund contribution on leave encashment with immediate effect and where provident fund contribution of the employer's share had been received; the same should be adjusted against future liabilities.

Audit observed that GAIL (India) Limited continued to make employer's contribution to employees provident fund on the amount of leave encashment amounting to ₹ 5.28 crore till November 2009 and also did not adjust the employer's share of contribution on leave encashment already paid prior to March 2008. Similarly, Indian Oil Corporation Limited also continued to make employer's contribution on leave encashment amounting to ₹ 6.87 crore till March 2009 and did not adjust the employer's share of contribution amounting to ₹ 14.94 crore on leave encashment already paid from 2005-06 to 2007-08 in respect of serving employees.

[1] ***In the case of Hindustan Lever Employees' Union vs. Regional Provident Fund Commissioner (RPFC)***
[2] ***In the case of Manipal Academy of Higher Education vs. Provident Fund Commissioner***
[3]***In case of Manipal Academy of Higher Education vs. Provident Fund Commissioner-Appeal (Civil) No. 1832 of 2004***

IOCL stated (December 2014) that no communication from Regional Provident Fund Commissioner (RPFC) was received by the Company and only on enquiry from EPFO, decision came to the knowledge of the Company. Implementation of any such change/decisions can be best implemented prospectively and accordingly provident fund deduction on leave encashment was discontinued from 1 April 2009.

GAIL stated (November 2014) that only during discussion with peer organizations, the communication issued by Regional Provident Fund Commissioner (RPFC) came to its knowledge. Thereafter, the Company sought clarification from EPFO and the RPFC concerned on the applicability of this communication/clarification to the Company, an exempted establishment. The clarification was received in November 2009 and accordingly provident fund deduction on leave encashment was discontinued from 1 December 2009.

Replies are not tenable as the decision of Hon'ble Supreme Court as well as instruction of May 2008 of EPFO to discontinue provident fund contribution on leave encashment were applicable with immediate effect and had also mandated adjustment of excess contributions already made against future liabilities. It was not open to the Company to postpone the applicability of EPFO directions and to avoid adjustment of the excess contributions already made.

Thus, payment of provident fund contribution amounting to ₹ 12.15 crore during April 2008 to November 2009 on leave encashment and non-adjustment of contributions made prior to March 2008 was in violation of judgment of Hon'ble Supreme Court and was, therefore, irregular.

Steel Authority of India Limited, National Highways Authority of India, National Building Construction Corporation of India Limited and National Projects Construction Corporation Limited

8.2 Recoveries at the instance of Audit

In five cases pertaining to four CPSEs, audit pointed out an amount of ₹ 28 crore that was due for recovery. The management of CPSEs had recovered an amount of ₹ 27.59 crore (98.5 *per cent*) during the period 2013-14 as detailed in **Appendix-I.**

Instrumentation Limited, Steel Authority of India Limited and Ferro Scrap Nigam Limited

8.3 Corrections/rectifications at the instance of audit

During test check, cases relating to violation of rules/regulations, non-compliance of guidelines were observed and brought to the notice of the management. Details of the cases where the changes were made by the management in their rules/regulations etc. at the instance of audit are given in **Appendix-II.**

CHAPTER IX

Follow-up on Audit Reports (Commercial)

Audit Reports of the CAG represent the culmination of the process of scrutiny of accounts and records maintained in various offices and departments of CPSEs. It is, therefore, necessary that appropriate and timely response is received from the executive on the audit findings included in the Audit Reports.

The Lok Sabha Secretariat requested (July 1985) all the Ministries to furnish notes (duly vetted by Audit) indicating remedial/corrective action taken by them on various paragraphs/appraisals contained in the Audit Reports (Commercial) of the CAG as laid on the table of both the Houses of Parliament. Such notes were required to be submitted even in respect of paragraphs/appraisals which were not selected by the Committee on Public Sector Undertakings (COPU) for detailed examination. The COPU in its Second Report (1998-99-Twelfth Lok Sabha), while reiterating the above instructions, recommended:

- setting up of a monitoring cell in each Ministry for monitoring the submission of Action Taken Notes (ATNs) in respect of Audit Reports (Commercial) on individual Public Sector Undertakings (PSUs);
- setting up of a monitoring cell in Department of Public Enterprises (DPE) for monitoring the submission of ATNs in respect of Reports containing paras relating to a number of PSUs under different Ministries; and
- submission to the Committee, within six months from the date of presentation of the relevant Audit Reports, the follow up ATNs duly vetted by Audit in respect of all Reports of the CAG presented to Parliament.

In the meeting of the Committee of Secretaries (June 2010) it was decided to make special efforts to clear the pending ATNs/ATRs on CAG Audit Paras and PAC recommendations within the following three months. While conveying this decision (July 2010), the Ministry of Finance recommended institutional mechanism to expedite action in the future.

While reviewing the follow up action taken by the Government on the above recommendations, the COPU in its First Report (1999-2000-Thirteenth Lok Sabha) reiterated its earlier recommendations that the DPE should set up a separate monitoring cell in the DPE itself to monitor the follow-up action taken by various Ministries/Departments on the observations contained in the Audit Reports (Commercial) on individual undertakings. DPE informed (March 2015) that a separate monitoring cell had been set up to monitor the follow up on submission of ATNs by the concerned administrative Ministries/Department. DPE also informed that they had also requested all the concerned departments having jurisdiction over CPSEs to set up Monitoring Cells in their department. Three monitoring meetings were also convened by DPE to review pending ATNs.

A review in Audit revealed that despite reminders, 41 ATNs are awaited from various Ministries, as detailed in **Appendix-III.**

(PRASENJIT MUKHERJEE)
Deputy Comptroller and Auditor General
and Chairman, Audit Board

New Delhi
Dated: 28 May 2015

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
Dated: 29 May 2015

APPENDICES
&
ANNEXURES

Appendix-I

(Referred to in para 8.2)

Recoveries at the instance of Audit during 2013-14

(Amount ₹ in lakh)

Name of Ministry/ Department	Name of the Central Public Sector Enterprise (CPSE)	Audit observations in brief	Amount of recovery pointed out by Audit	Amount recovered by the Management
Steel	Steel Authority of India Limited, VISP, Bhadravati	Non-availment of CENVAT credit for goods imported through DPEB	213.84	213.84
Road Transport and Highways	National Highways Authority of India	Non-encashment of Bank Guarantee in respect of six lane widening work	839.00	839.00
		Non-execution of contract for 4/6 lane widening work relating to Gundugalanu-Rajahmundary section of NH-5 and non-forfeiture of bid security	1617.00	1617.00
Urban Development	National Building Construction Corporation Limited	Irregular payment of ex-gratia in lieu of bonus and reward	127.00	86.00
Water Resources	National Projects Construction Corporation Limited, Kolkata	Short-receipt of interest from Bank.	3.40	2.84
Total			**2800.24**	**2758.68**

Appendix-II

(Referred to in para 8.3)

Corrections/Rectifications at the instance of Audit

Name of Ministry/ Department	Name of the Central Public Sector Enterprise (CPSE)	Audit observations/suggestions in brief	Action taken by the Management
Ministry of Heavy Industry & Public Enterprises, Department of Heavy Industry	Instrumentation Limited, Kota	The rates of employer's contribution to provident fund were revised from 8.33 *per cent* and 10 *per cent* to 10 *per cent* and 12 *per cent* vide The Employees Provident Funds and Miscellaneous Provisions (Amendment) Ordinance, 1997 issued vide Government of India, Gazette Notification dated 22 September 1997 which was subsequently enacted by the Parliament as The Employees Provident Funds and Miscellaneous Provisions (Amendment) Act, 1998, effective from 22-9-1997. The Company, which was contributing at the rate of 10 *per cent* since 01-6-1989, increased the rate from 10 to 12 *per cent* as per notification dated 22-9-1997. Audit observed that increase by the Company, in the rates of employer's contribution to PF was not in line with the provisions of Schedule II to the GoI, Gazette Notification No.	On being pointed out by Audit, the Company intimated (December 2014) that rate of employer's PF contribution has been reduced from 12 *per cent* to 10 *per cent* with effect from September 2014.

		S-35019/1/97-SS. II dated 9 April 1997, according to which increase in rate of employer's contribution to PF was not applicable to establishments viz. (i) establishments having less than 20 employees, (ii) any sick industrial company and (iii) any establishment which has at the end of any financial year accumulated losses equal to or exceeding its entire net worth. As the Company has been declared a sick company by BIFR on 1 January 1994 and falling under Schedule II of the Gazette Notification dated 09 April 1997, increasing the rate by ILK was not in order.	
Steel	Steel Authority of India Limited	The Company had allowed encashment of leave at the time of superannuation to its employee beyond the overall limit of 300 days both HPL and EL combined.	The Company had amended its leave rule and restricted leave encashment at the time of retirement to 300 days (both EL and HPL taken together).
Steel	Ferro Scrap Nigam Limited	The Company had allowed encashment of leave at the time of superannuation to its employee beyond the overall limit of 300 days both HPL and EL combined.	The Company had amended its leave rule and restricted the leave encashment at the time of superannuation/Retirement, other than on disciplinary grounds, to 300 days (EL and HPL combined), and HPL shall not to be commuted.

Appendix-III

(Referred to in Chapter IX)

Statement showing the details of Audit Reports prior to 2014 (Commercial) for which Action Taken Notes are pending

No. & year of Report	Name of Report	Para No.
Ministry of Heavy Industries & Public Enterprise		
13 of 2014	Compliance Audit	Para 13.2
Ministry of Housing and Urban Poverty Alleviation		
13 of 2014	Compliance Audit	Para 13.1
Ministry of Mines		
13 of 2014	Compliance Audit	Paras 10.1 and 13.1
Ministry of Petroleum and Natural Gas		
8 of 2012-13	Compliance Audit	Para 11.6
11 of 2012-13	PA on Hydrocarbon Exploration efforts of ONGC Limited	Standalone Report
13 of 2013	Compliance Audit	Paras 10.1, 10.2, 10.4, 10.5, 12.1 **(02 Companies)**
13 of 2014	Compliance Audit	Paras 13.1 **(02 Companies)**, 13.2, and Paras 11.1, 11.2, 11.3, 11.4, 11.6 and 11.8
Ministry of Power		
13 of 2013	Compliance Audit	Para 12.1 **(02 Companies)**
13 of 2014	Compliance Audit	Para 12.1
Ministry of Road Transport & Highways		
13 of 2014	Compliance Audit	Paras 14.2 and 14.3
Department of Scientific and Industrial Research		
8 of 2012-13	Compliance Audit	Para 9.4
13 of 2014	Compliance Audit	Para 15.1

Ministry of Shipping		
13 of 2013	Compliance Audit	Para 12.1
13 of 2014	Compliance Audit	Paras 16.2 and 16.3
Ministry of Social Justice and Empowerment		
8 of 2012-13	Compliance Audit	Para 9.4
Ministry of Steel		
8 of 2012-13	Compliance Audit	Para 15.2
13 of 2013	Compliance Audit	Paras 12.1 and 14.3
13 of 2014	Compliance Audit	Paras 13.2, 17.1, 17.2 and 17.3
Ministry of Textiles		
10 of 2010-11	Performance Audit of activities of selected PSUs	Chapter X
13 of 2014	Compliance Audit	18.1

Annexure-I
(Referred to in para 2.2)

A. Generation of false Money Receipt for issue of Delivery Order (DO)

Name of the Customer	Details of False MR		Details of DO issued against false MR		Actual Payment received		Undue credit extended (days)	Remarks
	Date	₹ in lakh	Date	₹ in lakh	Date	₹ in lakh		
M/S. Maheswary Metals & Alloys (P) Limited	21.12.12	14.90	21.12.12	14.66	15.01.13	14.90	25	MR created by manipulating bank statement of receipt from another customer
	26.12.12	6.10	26.12.12	5.88	17.01.13	6.10	23	Payment of only ₹ 6.10 lakh was received against DO of ₹ 11.88 lakh
			17.01.13	6.00	-	-	-	
	08.01.13	6.50	08.01.13	5.73	01.02.13	6.50	24	False MR generated by using an earlier receipt from the party
M/s. Marsons Limited	15.01.13	15.00	15.01.13	11.67	-	-	-	The company suffered loss of ₹25.86 lakh due to delivery of materials against false receipts
	22.01.13	15.00	22.01.13	14.19	-	-	-	
	15.01.13 21.01.13 28.01.13	15.50 15.50 15.50						Entries reversed subsequently
	02.01.13 17.12.12 29.01.13	10.00 14.50 20.86						Entries reversed subsequently
M/s. Mescab India Private Limited	07.12.12	14.00	07.12.12	11.93	10.12.12	14.00	3	A false MR was generated to allow the customer to lift materials valuing ₹11.89 lakh
	18.12.12	5.00	-	-	-	-	-	The false MR was ante-dated and was generated by manipulating an instrument number which was received earlier.
	19.12.12	28.00	21.12.12	28.71	-	-	-	The false MR was generated by manipulating an instrument number which was received earlier.
SUB-TOTAL		196.86		98.77				

B. Generation of Forged Bank Statement

M/s. Maheswary Metal and Alloys Limited	22.01.13	10.03	22.01.13	9.76	11.02.13	10.03	21	The fake MR was generated on the basis of a forged bank statement
	29.01.13	12.50	29.01.13	11.42	20.02.13	12.05	23	- do -
	01.02.13	12.05						Reversed subsequently
	12.02.13	6.50	12.02.13	5.81				- do -
M/s. Marsons Limited	12.11.12	14.50	12.11.12 & 18.12.12	13.95 & 14.48	17.12.12	14.50	36	The fake MR was generated on the basis of a forged bank statement & the company suffered a loss of ₹14.07 lakh
	29.11.12	14.50		14.28	26.11.12	14.50		This original receipt was reversed subsequently after issuing the DO
	05.12.12	15.50	05.12.12	14.08				The fake MR was generated on the basis of a forged bank statement & the company suffered loss of ₹ 14.08 lakh
SUB-TOTAL		85.58		83.78				
GRAND TOTAL		**282.44**		**182.55**				

Annexure-II
(Referred to in para 2.2)

Fraudulent/ Unjustified Customer Refund

Customers to whom refund was made			Fraudulent receipt to customers			Remarks
Case	**Customer Name**	**₹ in lakh**		**Customer Name**	**₹ in lakh**	
1.	Eastern Coils (P) Limited	0.85	1.	Maheswary Metal and Alloys Limited	0.85	
2.	Khaitan Electricals Limited	0.13	2.	Khaitan Wire Products Private Limited (KWPPL)	6.93	
3.	Khaitan Electronics (Unit – II)	6.80				
4.	Biecco Lawrie Limited	1.52	3.	Versatile Metal Concept Private Limited	10.30	
5.	Patratu Thermal Power Station	2.36				
6.	Heavy Engineering Corporation Limited	6.32				
7.	Bhagalpur Hightech Chem (I) (P) Limited	0.09				
8.	TISCO	23.64	4.	Versatile Wires Limited	41.58	
9.	Hindustan Cables Limited (Naini Unit)	15.46				
10.	Hindustan Photo Film Manufacturing Limited	2.48				
11.	Versatile Metal Concept Private Limited	10.91	5.	Versatile Wires Limited	10.91	
12.	Indo-Riv Refractories (P) Limited	1.01	6.	VarunVanyjya Private Limited	6.12	
13.	Bansal Cement Private Limited	5.11				
14.	Bantiya Metals	1.00	7.	Anirox Pigments Limited	1.00	
15.	Central Railways	0.43	8.	The Indian Iron Steel	102.96	Ledger account of M/s The Indian Iron Steel could not be found in the ERP system
16.	Sterlite Industries (I) Limited	8.21				
17.	Sail Growth Works Kulti	17.52				
18.	Tata Engineering & Locomotive Company Limited	24.75				
19.	SAIL-IISCO Steel Plant	25.50				
20.	Tata Iron & Steel Company Limited	26.56				
21.	Ballarpur Industries Limited	0.30	9.	Tata Engineering & Locomotive Company Limited	24.75	The amount transferred to M/s. Tata Engineering & Locomotive Company Limited was similar to the amount shown as fraudulently refunded to the same
22.	Fertilizer Corporation of India Limited	1.12				
23.	Davesmen – India	1.76				
24.	Hindustan Photo Films Mfg. Company Limited	2.45				
25.	Telelink Nicco Limited	2.71				
26.	Pro. & IND. I-Limited	2.83				
27.	The Associated Cement Limited	3.31				
28.	Madhu Processor	2.67				
29.	Kay Em Enterprises	7.60				

						customer as shown in Case No. 8
30.	R. D. Industrial	6.42	10.	R. D. Chemicals	1.90	The ledger account of M/s. R. K. Industries could not be found in the ERP system.
			11.	R. K. Industries	4.52	
31.	National Steel Corporation	1.83	12.	Mima Wires	6.73	
32.	General Enterprises	4.90				
33.	Sri Sai Krishna Blasting Works	22.46	13.	RO-East Accretion/ decretion of st. default	22.46	Unjustified refund
34.	Shree Madhav Agencies (P) Limited	0.80	-	-	0.80	Unjustified refund by camouflaging account
TOTAL		**241.81**			**241.81**	

Annexure-III
(Referred to in para 3.7.3.1 (a))
Purchase orders with wrong valuation types

Nature of PO	Valuation Type	No. of POs	No. of Items of Materials Involved	Value of items in PO (₹ in crore)
Indigenous	Imported	2	27	0.01
Imported	Indigenous	45	344	7.44
Total		**47**	**371**	**7.45**

Annexure-IV
(Referred to in para 3.7.3.1 (b))
Document date in purchase orders

Date of Test Check of Data	Purchase Order No.	Document Date
25-August-2014	4070025506	31-August-2014
08-September-2014	4070025935	15-September-2014
08-September-2014	4070025979	20-September-2014
08-September-2014	4070025988	31-October-2014
08-September-2014	5060084986	31-March-2015
25-August-2014	4010027637	08-November-2200
25-August-2014	4010006638	31-March-2904

Annexure-V
(Referred to in para 3.7.3.1 (c))
Non clearance of 'Stock in Transfers'

Sl. No.	Period of Non-Clearance	No. of STO Items	Value (₹ in crore)
1	Six months to One Year	5012	29.49
2	One to Two Years	11547	22.99
3	Two to Three Years	10275	4.26
4	Three to Four Years	9404	1.30
5	Four to Five Years	8179	3.93
6	Five to Six Years	5682	2.78
7	Six to Seven Years	4533	1.27
8	Seven to Eight Years	4602	2.97
9	Eight to Nine Years	4043	4.10
10	Nine to Ten Years	3632	2.02
11	More than Ten Years	1995	0.66
Total		**68904**	**75.77**

Annexure-VI
(Referred to in para 3.7.3.1 (d) (i))
Physical Verification of Assets – Verification Status of 'A' Category Assets

Sl. No.	No. of Deficit Assets	Gross Book Value (₹ in crore)	Year of Last Verification
1	3	1.06	1996-97 to 2007-08
2	16	39.42	2010-11
3	3	5.41	2011-12
4	17	88.41	2012-13
Total	**39**	**134.30**	**--**

Annexure-VII
(Referred to in para 3.7.3.1 (d) (i))
Physical Verification of Assets – Verification Status of 'B' Category Assets

Sl. No.	No. of Deficit Assets	Gross Book Value (₹ in crore)	Year of Last Verification
1	1	0.12	2005-06
2	3	0.51	2006-07
3	3	1.52	2007-08
4	2	0.32	2008-09
5	14	3.70	2009-10
6	232	57.33	2010-11
7	13	3.85	2011-12
8	272	66.97	2012-13
Total	**540**	**134.32**	**--**

Annexure-VIII
(Referred to in para 3.7.3.1 (d) (i))
Physical Verification of Assets - Verification Status of 'C1' Category Assets

Sl. No.	No. of Deficit Assets	Gross Book Value (₹ in crore)	Year of Last Verification
1	17	0.54	1991-92 to 1994-95
2	216	7.03	1995-96 to 1999-00
3	175	6.35	2000-01 to 2004-05
4	456	17.19	2005-06
5	11	0.42	2006-07
6	5	0.06	2007-08
7	2549	89.91	2008-09
8	8	0.32	2009-10
9	36	1.18	2010-11
Total	**3473**	**123.00**	**--**

Annexure-IX
(Referred to in para 3.7.3.1 (d) (i))
Physical Verification of Stores, Spares and Capital Items

Nature of Stores	Warehouse	Target	Achievement	Percentage of shortfall
Capital Items on Stock	Agartala	97	96	1%
	Ahmedabad	334	224	33%
	Baroda	26	17	35%
	Bokaro	8	0	100%
	KKN Odalarevu	170	0	100%
	Madhopur	23	10	57%
TOTAL		**658**	**347**	**47%**
Stores and Spares - Cat A	Ahmedabad	780	430	45%
	Baroda	4	1	75%
	Bokaro	34	0	100%
	Cambay	102	7	93%
	Chennai	8	5	38%
	Dehradun	88	0	100%
	Jodhpur	39	30	23%
	KKN Odalarevu	17	0	100%
	Madhopur	135	126	7%
TOTAL		**1207**	**599**	**50%**
Stores and Spares - Cat B	Bokaro	1	0	100%
	Cambay	1	0	100%
	Jodhpur	5	1	80%
TOTAL		**7**	**1**	**86%**
Stores and Spares - Cat C	Ahmedabad	108	44	59%
	Bokaro	3	0	100%
	Cambay	9	1	89%
	Chennai	4	1	77%
	Dehradun	15	0	100%
	Jodhpur	3	1	67%
	Karaikal	52	47	10%
	KKN Odalarevu	8	0	100%
	Mehsana	49	46	6%
	Sivasagar	126	75	40%
	Uran	16	10	38%
TOTAL		**393**	**225**	**43%**

Annexure-X
(Referred to in para 3.7.3.1 (d) (ii))
Physical Verification of Assets – Age Analysis of Deficient Assets

Period of Deficit	No. of Deficit Assets	Gross Book Value (₹ in crore)
Upto One Year	1905	39.03
One to Three Years	2628	52.92
Three to Five Years	4795	37.13
Five to Ten Years	4842	77.78
Ten to Twenty Years	354	5.41
More than Twenty Years	1001	9.42
Total	**15525**	**221.69**

Annexure-XI
(Referred to in para 3.7.3.1 (d) (ii))
Physical Verification of Assets - Age Analysis of Period by which the Date of Deficit was later to the last inventory date

Period by which the Date of Deficit was later to the last inventory date	Items of Assets in Deficit	Gross Book Value (₹ in crore)
Upto Three Months	758	12.02
Three to Six Months	115	2.47
Six Months to One Year	10	0.05
One to Five Years	18	0.66
More than Five Years	18	0.04
Total	**919**	**15.24**

Annexure-XII
(Referred to in para 3.7.3.1 (d) (iv))
Discrepancies in In-house developed Reports

Report (as on 26 September 2014)	Items of Assets in Deficit	Gross Book Value (₹ in crore)
Report on Age Analysis of Discrepant Assets[1]	15525	221.69
Report on Assets Verification Deficit Summary Report[2]	13965	196.78

[1]*SAP T-Code - ZFIAMDFCT*
[2]*SAP T-Code - ZFIVERIABC*

Annexure-XIII

(Referred to in para 3.7.3.2 (b))

Material Procurement Planning – Capital Items lying in stores

Sl. No.	Period since lying in Main Stores	No. of Items	Value (₹ in crore)
1	Six months to One Year	431	18.52
2	One to Three Years	230	08.55
3	Three to Five Years	164	06.05
4	Five to Ten Years	288	11.00
5	More than Ten Years	19	00.16
Total		**1132**	**44.28**

Annexure-XIV

(Referred to in para 3.7.3.4 (a))

Creation of fresh PRs with earlier requisitions pending

Plant Name	Pending PRs created during April 2008 to March 2011		PRs created during April 2011 to March 2014 for same materials with POs issued	
	No. of PRs	Materials Involved in PRs	No. of PRs	Materials Involved in PRs
Drilling Services Mumbai	50	229	4	4
Ahmedabad Asset	54	191	13	17
Ankleshwar Asset	28	202	3	2
Corporate Services Dehradun	41	375	23	22
Total	**173**	**997**	**43**	**45**

Annexure-XV

(Referred to in para 3.7.3.4 (b))

Delay in recording of material consumption

Sl. No.	Period After Well Completion	Wells for which consumption booked	Value (₹ in crore)
1	Upto One Month	94	63.30
2	One to Three Months	80	46.01
3	Three to Six Months	53	20.97
4	Six Months to One Year	38	10.34
5	One to Two Years	22	02.77
Total		**102**	**143.39**

Annexure-XVI
(Referred to in para 3.7.3.4 (b))
Delay in recording of material consumption

Sl. No.	Material Group	Description of Materials	Value (₹ in crore)
1	01	Drilling Pipes	07.02
2	02	Casing Pipes	60.17
3	03	Other Pipes and Fittings	00.27
4	04	Drill Bits	20.18
5	06	Other Drilling Store	01.46
6	09	Oil Well Cement	10.70
7	10	Chemicals including Mud Chemicals	11.03
8	11	Oil Grease and Lubricants	04.74
9	15	Tubing Pipe and Fittings	18.41
Total			**133.98**

Annexure-XVII
(Referred to in para 3.7.3.4 (c))
Open Purchase Orders with balance quantity

Nature of PO	Number of POs	No. of Items	Total value of items in PO (₹ in crore)	Balance Value of items in PO (₹ in crore)
Indigenous	531	1092	1110.34	11.19
Imported	26	246	794.19	01.68
Total	**557**	**1338**	**1904.53**	**12.87**

Annexure-XVIII
(Referred to in para 4.1.3.5)
Statement showing analysis of time taken in repair/ replacement of defective meter

SL No.	Name of Consumer	Meter No.	GOMD/ Sub Station	Date of Complain by the consumer	Date of Repair/replacement of the meter	Time taken in days in repair / replacement from the date of complaint by consumer	Replaced / Repair	Type of Meter Replaced	Date of Checking of the meter	Date of Confirmation of defect in the meter
1	Cosmic Ferro Alloy	APMA1136	Barjora	19-05-2011	26-05-2011	7	Replaced	CHECK	26-05-2011	26-05-2011
2	LAL Ferro	APMA1053	Giridih	01-07-2011	08-07-2011	7	Replaced	M1	08-07-2011	08-07-2011
3	JSEB Huppu	DVCM0035	Gola	29-11-2012	06-12-2012	7	Replaced	M1	06-12-2012	06-12-2012
4	JIPL	APMA0119	Kalyaneshwari	25-05-2011	02-06-2011	8	Replaced	M1	03-06-2011	03-06-2011
5	Jai Balaji	APMA1050	Durgapur	10-07-2013	19-07-2013	9	Replaced	M1	19-07-2013	19-07-2013
6	HCPL	APMA99653	Kalyaneshwari	25-05-2011	03-06-2011	9	Replaced	M1	03-06-2011	03-06-2011
7	CIPL	APM99680	Kalyaneshwari	25-05-2011	03-06-2011	9	Replaced	M1	03-06-2011	03-06-2011
8	Sarod Internation	APMA0101	Kumardhubi	11-07-2013	20-07-2013	9	Replaced	M1	16-07-2013	16-07-2013
9	HMFL Bhuli	DVCM0021	Putki	17-03-2012	26-03-2012	9	Replaced	M1	26-03-2012	26-03-2012
10	Arjan Das	APMA1166	Barjora	30-08-2011	09-09-2011	10	Replaced	M2	09-09-2011	09-09-2011
11	Bharat Hitech	DVCM0066	Purulia	07-03-2012	17-03-2012	10	Replaced	M1	17-03-2012	17-03-2012
12	Dinman Polypack	APMA1143	Durgapur	06-08-2011	17-08-2011	11	Replaced	M2	17-08-2011	17-08-2011
13	Impex Steel	DVCM0205	Kalyaneshwari	27-09-2011	08-10-2011	11	Replaced	M1	08-10-2011	08-10-2011
14	JSEB Koderma	DVCM0449	Koderma	20-07-2012	31-07-2012	11	Replaced	M2F2	31-07-2012	31-07-2012

15	MVL FDR Check	DVCM0075	Right Bank	10-12-2012	21-12-2012	11	Replaced	CHECK	21-12-2012	21-12-2012
16	Santpuria Alloy	APMA1063	Giridih	26-11-2011	12-12-2011	16	Replaced	M2	12-12-2011	12-12-2011
17	FPL	APMA1104	Burdwan	29-05-2013	15-06-2013	17	Replaced	M2	15-06-2013	15-06-2013
18	UMSPL	APMA1074	Kalyaneshwari	02-11-2013	19-11-2013	17	Replaced	M1	19-11-2013	19-11-2013
19	UMSPL	APMA1212	Kalyaneshwari	02-11-2013	19-11-2013	17	Replaced	M2	19-11-2013	19-11-2013
20	HCPL	APM99642	Kalyaneshwari	02-11-2013	20-11-2013	18	Replaced	M1	20-11-2013	20-11-2013
21	MSPL	DVCM0207	Kalyaneshwari	02-11-2013	20-11-2013	18	Replaced	M2	20-11-2013	20-11-2013
22	Vikash Metal	APMA1187	PHS	26-05-2011	16-06-2011	21	Replaced	M2	16-06-2011	16-06-2011
23	War Steel	APMA1115	Ramgarh	05-09-2012	27-09-2012	22	Replaced	M2	27-09-2012	27-09-2012
24	Balashree Metals	APMA1024	Ramgarh	05-09-2012	27-09-2012	22	Replaced	M2	27-09-2012	27-09-2012
25	UMSPL	APMA1188	Kalyaneshwari	13-09-2013	07-10-2013	24	Replaced	M1	07-10-2013	07-10-2013
26	Sumi Vyper	APMA1074	Ramgarh	20-11-2012	22-12-2012	32	Replaced	M2	22-12-2012	22-12-2012
27	Shri Ramrathi	APM99637	Barjora	15-10-2012	22-11-2012	38	Replaced	M1	22-11-2012	22-11-2012
28	Ram Sawrup Nirman	APMA1163	Durgapur	15-10-2012	23-11-2012	39	Replaced	M1	23-11-2012	23-11-2012
29	G&A Metel	APMA1132	Barjora	26-10-2013	07-12-2013	42	Replaced	M1	28-10-2013	28-10-2013
30	Tulip Fabric	APMA1155	Barjora	26-10-2013	07-12-2013	42	Replaced	M2	28-10-2013	28-10-2013
31	Dayal Steel	DVCM0473 (M-11)	Ramgarh	05-11-2013	11-01-2014	67	Replaced	M2F2	11-01-2014	11-01-2014
32	BSL	FAF20	CTPS	30-04-2013	25-07-2013	86	Replaced	M1	03-05-2013	03-05-2013

Annexure-XIX

(Referred to in para 4.1.3.7)

Statement showing loss on account of non-metering in the colonies (BTPS, CTPS, DTPS, MTPS, Maithon and Panchet) of DVC during the years 2011-12 to 2013-14

Name of the Colony	Loss in ₹
BTPS	35,94,17,871
CTPS	31,30,79,253
DTPS	8,77,13,760
MTPS	13,74,22,314
Maithon	40,21,26,825
Panchet	12,74,35,476
Total	**1,42,71,95,499**

Annexure-XX

(Referred to in para 6.1)

Statement showing net loss

Particulars	**Area in square meters**	**Loss if compared with Bharat Textile Mills reserve price (₹ In crore)**	**Loss if compared with per sq. Meter rate of developed land as per Stamp Duty Ready Reckoner (₹ In crore)**
Hall and Anderson share of land (35 *per cent* of total land)	27585.36$ **(P)**		
Rate in ₹ Per square meters as per reserve price fixed by NTC (2009) in respect of Bharat Mills (Process House) located in same zone as Madhusudan Mills	221155.46 **(Q)**		
Rate per square meters of a developed land as per Stamp Duty Ready Reckoner Mumbai 2009	86300 **(R)**		
Value of land given to HAL under settlement if compared with reserve price of Bharat Textile Mills **(P x Q)**		610.07	
Value of land given to HAL under settlement if compared with rate per square meters of a developed land as per Stamp Duty Ready Reckoner Mumbai 2009 **(P x R)**			238.06
Less: consideration received		33.05*	33.05*
Net Loss		**577.02**	**205.01**

$- Total land area- 78815.3 (35% of 78815.3= 27585.36)

****Includes ₹ 2.16 crore amount paid to Central Bank of India and ₹ 1.54 crore being statutory dues.***