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Report of the
Comptroller and Auditor General of India

Union Government (Commercial)
No. 15 of 2016
(Compliance Audit Observations)

Volume I

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Comptroller and Auditor General of India

for the year ended March 2015

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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 143(6) of Companies Act, 2013. 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. Airports 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 31 March 2015 has been prepared in two volumes. This is Volume I of the Audit Report and contains 32 individual audit observations relating to 20 PSUs under control of 11 Ministries/Departments. Volume II contains 21 individual audit observations pertaining to 11 PSUs under the control of five Ministries/Departments. Instances mentioned in this Report are among those which came to notice in the course of audit during 2014-15 as well as those which came to notice in earlier years. Results of audit of transactions subsequent to March 2015 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 143 (6) of the Companies Act, 2013 or the statutes governing the particular Corporations.

2. The Report contains 32 individual observations relating to 20 PSUs under 11 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 22 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. Atomic Energy (NPCIL)	1	1
2. Civil Aviation (AAI)	5	5
3. Coal (ECL and NLCL)	2	1
4. Commerce and Industry (ECGC)	1	1
5. Consumer Affairs, Food and Public Distribution (FCI)	5	5
6. Fertilizers (MFL, FACT and RCF)	2	1
7. Finance (IFCI Factors Ltd., STCI and UIICL)	4	-
8. Health And Family Welfare (HLL)	2	-
9. Heavy Industries and Public Enterprises (BHEL)	3	3

10. Housing and Urban Poverty Alleviation (HUDCO)	1	-
11. Power (DVC, PFCL, NEEPCO, NTPC and REC)	6	5
Total	**32**	**22**

4. Total financial implication of audit observations is ₹ 5,936.76 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 ₹ 2,858.12 crore in 14 audit paragraphs.
- ❖ Non safeguarding of financial interest of organisations involving ₹ 638.46 crore in 10 audit paragraphs.
- ❖ Defective/deficient planning involving ₹ 2,389.95 crore in seven audit paragraphs.
- ❖ Inadequate/deficient monitoring involving ₹ 50.23 crore in one audit paragraphs.

6. The Report also contains a paragraph relating to recoveries of ₹ 49.19 crore made by five PSUs and another paragraph relating to corrections/rectifications carried out by two PSUs at the instance of Audit.

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

The renovation and modernization activities of 18 power stations of NTPC Limited were planned to be carried out during 2004-19 as per the R&M Policy 2002 and Business Process 2006. The actual expenditure incurred on renovation and modernization stood at ₹ 4147.02 crore up to March 2015 as against ₹ 8327.40 crore sanctioned between July 2007 and March 2015. Audit observed delay of three to 109 months in completing activities relating to R&M works in 19 out of 20 schemes selected in nine power stations. Out of 335 contract packages, only 197 contract packages were awarded. Out of 107 packages completed, 41 packages were delayed as on 31 March 2015. NTPC had to forgo tariff recovery of ₹ 199.65 crore in four power stations due to non-completion of works within tariff period 2004-09, as the norm for tariff recovery was modified by CERC for tariff period 2004-09 and refunded tariff along with interest of ₹ 23.42 crore since some projects against which tariff recovery was allowed could not be completed within the tariff period 2009-14. There was avoidable or extra expenditure of ₹ 54.45 crore and generation loss of ₹ 269.78 crore due to defective systems, as implementation of R&M works for their replacement was delayed. Excess coal consumption of ₹ 881.89 crore due to poor thermal efficiency, generation loss of ₹ 489.29 crore on account of forced outages and non-adherence of environment norms due to non-completion of projects in time even after their initiation were also noticed.

(Para 11.5)

Housing and Urban Development Corporation Limited (HUDCO) mobilised ₹ 37128.32 crore during the period 2010-11 to 2014-15. The share of Loans which carried higher interest rates was high among different source of funds. In assessing fund requirement, critical elements of fund inflow/outflow were not given due cognizance resulting in excess mobilization of funds and additional interest burden of ₹ 30.39 crore. Lower credit rating due to higher Non-performing assets and lower net interest margin resulted in higher coupon rate and consequent additional financial burden of ₹ 134.97 crore. In lending operations, the disbursement ranged between 38.40 and 69.72 *per cent* of loans sanctioned during the five years ended 2014-15. Violations of directions issued by the regulator National Housing Bank, deficiencies in internal guidelines, and deficiencies in appraisal mechanism, system of disbursement, monitoring of financed projects and waiver of critical pre-disbursement conditions led to non-performing assets, which increased from ₹ 1227.60 crore in 2010-11 to ₹ 2029.33 crore in 2014-15 and ranged between 5.46 *per cent* and 6.76 *per cent of* gross outstanding loans, during the same period.

(Para 10.1)

A review of the marketing activities of five divisions of HLL Lifecare Limited, for three years from 2012-13 to 2014-15 was taken up with a view to assess the efficiency and effectiveness of those operations. Some of the observations are given below:

- All the four domestic divisions failed to achieve their respective sales targets, particularly in the last two years. The shortfall in achievement of targets was in spite of substantial funds spent by HLL from 2012-13 to 2014-15 on marketing of its products.

- HLL had no uniform structure for grant of credit limit and credit period to its clients. Outstanding dues beyond credit period at ₹ 312.92 crore as on 31 March 2015 was significant.
- The sales volume decreased despite HLL offering quantity discount ranging between 19.81 *per cent* and 300.88 *per cent*.
- HLL had no method of conducting customized market research for product change and development, to meet competition and to plan for improvement in market share.
- Although, HLL has undertaken expansion of production facilities, capacity utilisation was mainly dependent on government orders. Further, the delay in timely receipt of subsidy claims adversely affected its funds position.

(Para 8.1)

Food Corporation of India (FCI) implemented Financial Accounting package (FAP) in collaboration with Tata Consultancy Services (TCS). Two core components of FAP are Accounting Module and Payroll Module. Audit examined the adequacy of programming logic and mapping of business rules. The major audit findings are as shown below:

- The roll out of FAP (Payroll module) was started w.e.f. 01 October 2010 and the "Go live" certificate (w.e.f. 01 December 2013) for FAP was issued by the Management to TCS in February 2014 even though certificates for completion of FAP were not issued by any of the pilot locations. Inspite of non-fulfilment of contractual condition for issue of completion certificate by the pilot locations, FCI/TCS rolled out the package and full payment of ₹ 12.53 crore was made to TCS.
- Virtual Private Network connectivity was not provided to district offices which were the prime end users of the FAP project. Thus, the district offices were forced to depend upon other sources like data card services and individual broadband services in an unstructured manner. This rendered the expenditure of ₹ 4.02 crore unfruitful.
- No provision was made for interface of FAP with stock accounting in violation of terms and conditions of contract. As a result the entries were made manually in FAP from the monthly stock accounts statement sent by various depot offices.
- Enterprise Resource Planning (ERP) application developed at a total cost of ₹ 21.84 crore (including hardware and software) was not generating the financial statements as per requirement of the Companies Act, 2013.
- Audit noticed number of inconsistencies and discrepancies in the FAP data. Besides, several deficiencies were also noticed in the Financial Accounting Module and Payroll Module which are discussed in detail in the para.

(Para 5.2)

The Cabinet Committee on Economic Affairs (CCEA) approved export of 65 lakh Metric Tonnes (MTs) of wheat from Central Pool stocks of FCI through three Central Public

Sector Undertakings. An audit of export of wheat by West Zone of FCI was taken up from May 2015 to July 2015 which revealed the following:

- Inclusion of an additional clause in tender on the request of Port Authority resulted in elimination of other registered bidders for Handling and Transport (H&T) contracts. In six cases insufficient time was allowed for submission of tenders by Empowered Committee (EC).
- While the EC compared offered rates of ports in respect of three cases with the rates of wheat received in other ports in nine cases, the EC neither made any such comparison nor made any efforts for maximizing the rate even when the offered price was lower as compared to other ports on the same date.
- For similar job Clearing and Handling Agents (CHAs) at the Mundra and Pipavav private ports charged higher handling charges compared to those charged by M/s Rishi Shipping (CHA at Kandla port).
- After completion of Phase I and Phase II of Export, balance quantity of wheat stock was transported to different depots in Gujarat which resulted in avoidable expenditure of ₹ 20.67 crore.
- Mines and Metals Trading Corporation (MMTC) withheld ₹ 60.99 crore of the realised amount as adjustment in respect of old dues pertaining to the year 1991 receivables from FCI.
- Adani Port & SEZ Limited (APSEZ) failed to clean the cargo of wheat within the stipulated period upto the specified level resulting in cancellation of the tender. Thus, due to cancellation of order an amount of ₹ 2.83 crore was foregone.
- Full charges were reimbursed/paid to the CHAs resulting in additional expenditure to the tune of ₹ 8.01 crore, even though FCI carried out the handling operations which was the responsibility of CHA appointed by CPSUs.

(Para 5.1)

The audit of fertilizer products by Fertilisers and Chemicals Travancore Limited (FACT) and Madras Fertilisers Limited (MFL) for the period 2012-13 to 2014-15 revealed the following:

- The Companies did not achieve targets prescribed in Memorandum of Understanding (MoU) entered into with Government of India for production and sales. Non-achievement of the production and sales target, as per MoU, was one of the reasons for FACT being given an adverse credit rating by the bankers leading to higher interest rate being charged on cash credit facilities availed by the Company.
- There were cases of non-adherence to the guidelines of Central Vigilance Commission (CVC) in finalisation of bids. FACT was hiring permanent godowns without following usual tendering process and was renewing the agreements at the end of the existing agreement period at renewed rates after negotiation with the owners of the godown. Non-finalization of permanent railhead contracts/non-tendering of hiring of godowns, led to lack of transparency in procurement procedures. MFL negotiated with all the Lowest contractors of railhead awarded

for 35 locations in 2012-13, 20 locations in 2013-14 and 44 locations in 2014-15 even though instructions of CVC (January 2010) prohibited post tender negotiations with L1, except in certain exceptional situations.

- There were delays in claiming and follow up of subsidy from Government of India due to which the Companies faced liquidity crunch. As on 31 March 2015, subsidy amount of ₹ 740.12 crore and ₹ 448.23 crore was pending to be received from the Government by MFL and FACT respectively.

(Para 6.1)

The due diligence conducted by the committee constituted by Rural Electrification Corporation Limited for screening loan application justified a loan of ₹ 45 crore only, whereas the Board of Directors approved ₹ 250 crore. Although the Board directed management to take a considered and independent view irrespective of the decision of lead/other lenders, the risk mitigating measures contemplated as part of pre-disbursement conditions were relaxed by way of extension of time for their compliance, and most of the conditions have not been complied with throughout the period of loan disbursement between August 2007 and March 2010 and as on December 2015. The loan was classified as non-performing asset in June 2011 due to continuous default of the borrower in servicing the loan since December 2010 and categorised as doubtful in January 2013. Thus, decision to sanction and disburse the loan disregarding the risk associated with financially weak promoters, after relaxing pre-disbursement conditions resulted in risky exposure of ₹ 250 crore.

(Para 11.6)

Decision by Power Finance Corporation Limited (PFC) to relax pre-disbursement conditions and release of instalments of loan disregarding the provisions of Common Loan Agreement that permitted PFC to take independent decision on release of instalments irrespective of the decision of other consortium partners led to risky loan exposure of ₹ 239.36 crore and the loan became a sub-standard asset. There were uncertainties surrounding the project arising from apparently fraudulent allotment of Coal block for the project.

(Para 11.2)

STCI Finance Limited, a Non-Banking Financial Company (NBFC) registered with Reserve Bank of India, failed to declare loans as NPAs, recall defaulting loans, enforce the security, explore options to sell the NPA to Asset Reconstruction Company and file civil suit against defaulter loanees within the prescribed time, as per the provisions of its lending policy and terms and conditions of facility agreements with lenders. Consequently, funds to the extent of ₹ 152 crore remained blocked in bad loans and suffered loss of interest of ₹ 39.36 crore thereon during March 2010 to June 2015.

(Para 7.3)

Bharat Heavy Electricals Limited (BHEL) designed transformers without ascertaining the actual operational requirements of a foreign client assuming that the transformers would be operated on equal loading basis, and failed to undertake corrective measures to address the premature failure of transformers supplied by it even within three years from the notice of default. As a result, the client initiated arbitration proceedings and the Tribunal awarded in favour of the client. BHEL paid compensation of ₹ 163.17 crore towards replacement cost of transformers supplied by it.

(Para 9.1)

Nuclear Power Corporation of India Limited paid Transport Allowance renamed as City Conveyance Allowance (CCA), for Headquarters and Site Conveyance Allowance (SCA) for sites, to officers/staff who were already provided with independent cars/ transport facility from residence to place of towns. The said CCA/SCA was calculated at 40 *per cent* of the rate of conveyance allowance proposed for employees not provided with transport facility (base rate). The payment of CCA/SCA to officers/staff was in violation of the established principle of conveyance allowance and led to consequential extra expenditure of ₹ 105.47 crore during September 2008 to March 2015.

(Para 1.1)

CHAPTER I: DEPARTMENT OF ATOMIC ENERGY

Nuclear Power Corporation of India Limited

1.1 Payment of City/Site Conveyance Allowance to officials provided with Transport facility

Nuclear Power Corporation of India Limited extended undue benefits of City/Site Conveyance Allowance to those officers/staff who were already provided with independent car/transport facility. This resulted in consequential extra expenditure of ₹105.47 crore during September 2008 to March 2015.

The Board of Directors (BOD) of Nuclear Power Corporation of India Limited (NPCIL) approved (September 2008) implementation of the recommendation of the Sixth Central Pay Commission (6^{th} CPC) in NPCIL. While approving the proposal relating to pay and allowances, the BOD authorized its Chairman and Managing Director (CMD) to decide the Transport Allowance, separately for NPCIL Headquarters and NPCIL Sites keeping in view the different factors including cost effectiveness and operational feasibility.

The CMD approved (October 2008) payment of Transport Allowance renamed as City Conveyance Allowance (CCA), for Headquarters and Site Conveyance Allowance (SCA) for sites, to officers/staff who were already provided with independent cars/ transport facility. The said CCA/SCA was calculated at 40 *per cent* of the rate of conveyance allowance proposed for employees not provided with transport facility (base rate). While allowing the payment of CCA/SCA to officers/staff already provided with independent cars/transport facility, it was stated that the cost of transportation from residence to work place and back together with the cost of making trips to nearby market town accounted for about 60 *per cent* of overall transportation cost of NPCIL and therefore CCA/SCA was allowed @ 40 *per cent* of the base rate to those officers/staff who were already provided with independent cars/ transport facility by NPCIL.

Allowance of CCA/SCA to officers/staff who were already provided with independent cars/transport facility from residence to place of duty and in nearby towns was in complete violation of the established principle of conveyance allowance and led to consequential extra expenditure of ₹105.47 crore during September 2008 to March 2015.

The Management stated (December 2013) that due to nuclear safety consideration it is essential that NPCIL maintains a fleet of transport for the purpose of evacuation of employees as a part of emergency preparedness as well as to ensure staff availability during local unrest etc. Further, keeping in view the remoteness of the nuclear power plants and reluctance of young talent to work at sites, NPCIL has been taking various incremental measures as a part of attraction and retention strategy. Therefore as authorized by the Board, it was decided to grant conveyance allowance to NPCIL employees in place of Transport Allowance which shall be more or less comparable to the rate of Transport Allowance. Thus, while finalizing the amount of conveyance allowance, it was decided that conveyance allowance be paid at 40 *per cent* of base rate even to those employees who were provided with official transport.

The Management further stated (December 2015) that sixth CPC allowed employees to choose the company transport or the transport allowance. Thus, given a choice, perhaps employees would have chosen the allowance which could have compromised the imperatives of safety and emergency situation management effectively. Since, NPCIL is required to maintain the transport contingent for safety, security and emergency preparedness imperatives, this would have caused additional expenditure on maintaining the mandatory fleet of transport with a view to meet regulatory requirement apart from paying transport allowance in full to all employees. Thus, to optimise and make an attractive proposition, a scheme of conveyance allowance was evolved after a lot of deliberations and consultative process held with employees at all the time including shift working which otherwise would have been difficult had the employees been allowed to commute in their own vehicles. Thus, punctuality and discipline was ensured.

The reply of the Management is untenable as conveyance allowance is to take care of the cost incurred by an employee to commute from his/her residence to place of work. In case employees are provided with official transport (car, bus etc.) for to and fro commutation between residence and office, there is no justification for paying any amount of conveyance allowance. Moreover, for retaining young talent at sites the fact was that to offset locational disadvantage, officials posted at operating stations/projects/new sites are already being paid site allowance at the rate 10 *per cent* of basic pay plus Non Practicing Allowance (in respect of Medical officers of the Company). Moreover, NPCIL's stand that employees, by using their own transport, would compromise the safety at the establishment and lead to tardiness unfairly implies adverse behavioural attributes to NPCIL employees and is unacceptable.

Thus, the payment of CCA/SCA to officers/ staff already provided with independent cars/transport facility was not only a violation of GOI rules but also resulted in extra expenditure to the tune of ₹ 105.47 crore during the period September 2008 to March 2015.

The matter was reported to the Ministry in October 2015; their reply was awaited (March 2016).

CHAPTER II: MINISTRY OF CIVIL AVIATION

Airports Authority of India

2.1 Potential loss of revenue to Airports Authority of India (AAI) resulting from flaw in agreement between MIAL and private developer HDIL for removal of encroachments from Airport Land

As per Operation Management and Development Agreement signed between AAI and MIAL, MIAL was to remove encroachments in the demised airport land handed over by AAI to MIAL. Subsequently, MIAL awarded rights for commercial development on a considerable portion (65.20 acres) of Mumbai airport land owned by Airports Authority of India (AAI) to HDIL for a very long period (upto 60 years) in return for removal of encroachments from the airport land. MIAL did not inform AAI before entering into an agreement. MIAL would not receive any revenue from HDIL for the commercial development of airport land and hence no revenue share would accrue to AAI. Though the contract between HDIL and MIAL has since been terminated (February 2013), the matter is still under arbitration and hence the possibilities of transfer of land with attached commercial development rights have not been closed finally. Meanwhile, the encroachment of airport land is continuing.

Airports Authority of India (AAI) handed over (April 2006), Chatrapati Shivaji International Airport (CSIA) , Mumbai to Mumbai International Airport Limited (MIAL) under Operation Management and Development Agreement (OMDA) for a period of 30 years. The airport land handed over to MIAL was termed the 'demised premises'. At the time of signing of OMDA, the status of total land of Mumbai Airport was 1875 acres. Out of this 1875 acres, 76.3 acres were carved out assets retained by AAI. The balance area i.e 1798.7 acres was demised premises. As per clause 2.2.4 of OMDA, MIAL was eligible to utilize 10 *per cent* of the demised premises in the airport for commercial development. The area available for commercial development was 179.8 acres. As per clause 11.1.2 of OMDA, AAI was eligible to receive 38.7 *per cent* of the gross revenue (including revenue from commercial activities) generated by MIAL.

The demised premises included encroached land.As per the State Government Support Agreement (SGSA) signed by MIAL (April 2006) with Govt. of Maharashtra, MIAL was to bear the entire cost of relocation of approx. 80,000 families encroaching airport land.In March 2007, State Government allowed inclusion of the project for rehabilitation of slum dwellers from the airport site under the Development Control Regulations (DCR). DCR provides for both in-situ rehabilitation (clause 33(10) of DCR) as well as rehabilitation in an alternate site (clause 3.11 of DCR). It was decided that the encroachers of airport land would be rehabilitated in an alternate site (clause 3.11 of DCR).

In October 2007, MIAL signed an agreement with a private company, Housing Development and Infrastructure Limited (HDIL) for removing and rehabilitating encroachers of airport land by October 2011. The work was to be taken up in two phases, removing encroachment from airport land measuring 157.93 acres in the first phase and from 118.53 acres in the second phase. As per agreement, HDIL was to bear the entire cost of rehabilitation and in return, receive rights for commercial development of 65.2 acres (55 *per cent* of the airport land cleared of encroachment in the second phase). As required under clause 3.11 of DCR, HDIL identified its own land and took up construction of 28,000 tenements in the first phase of encroachment removal scheme. HDIL signed deeds of conveyances (December 2007) with Slum Rehabilitation Authority (SRA) of Government of Maharashtra, transferring the ownership of land and tenements to SRA. Under the DCR provisions, HDIL was eligible for Transfer of Development Rights (TDRs) in lieu of land that it provided (land TDR) and for construction of tenements (construction TDR). As on Sept 2015, SRA had released land TDR for 2,50,679.63 sq. mtrs and construction TDR for 6,49,392.00 sq. mtrs (Approx. value ₹ 2,400 crores[1]).

Clause 8.5.7 (e) of OMDA required that the JVC shall ensure that any sub-contract, license or sub-lease granted in relation to the airport expires on the 30th anniversary of effective date. The agreement between HDIL and MIAL, however, envisaged sub-lease of 65.2 acres of airport land to HDIL for commercial development for a period of 30 years to be renewed automatically for another 30 years in case the airport lease with MIAL gets renewed, which is in contravention of the provisions of clause 8.5.7 (e) of OMDA.

In February 2013, MIAL terminated its contract with HDIL as the airport encroachment, being agreed under the Contract, could not be removed by HDIL by October 2011. HDIL invoked the arbitration process. Presently (November 2015), the dispute between HDIL and MIAL is under arbitration. Till date, no encroachment has been removed from the airport site. SRA meanwhile released considerable quantum of TDR (both land and construction TDR) to HDIL. The grant of such TDR, thus, did not serve the intended purpose of encroachment removal from Mumbai Airport.

Audit has the following observations:

- MIAL was eligible for commercial development of 179.8 acres of land (10 *per cent* of the demised premises of 1798.7 acres) in the Mumbai airport. In the sanctioned Interim Development Plan (IDP) of CSIA for the period 2010-14 MIAL proposed commercial utilisation of 169.31 acres with floor space index (FSI) of 4.0. In August 2014, MIAL pointed out to Government of Maharashtra that the available land at Mumbai airport for commercial development was only 133.08 acres as against its requirement of 169.31 acres (sanctioned in the IDP). The State Government accordingly allowed MIAL an additional FSI of 1 (the available FSI of 4 increased to 5) for 133.08 acres of airport land to cover the shortfall. Thus, MIAL has already received commercial development rights for 169.31 acres of airport land out of 179.8 acres mandated in the OMDA for which MIAL has also identified specific commercial activities. Thus, balance land available to MIAL for commercial development as per OMDA is only 10.49 acres (179.8 – 169.31 acres = 10.49 acres). The agreement between

[1] ***As submitted by HDIL to Hon'ble High Court of Mumbai during November 2013.***

MIAL and HDIL provides for sub-lease of 65.2 acres of airport land to HDIL for commercial development,even though,only 10.49 acres would be available as per the OMDA as against the 65.2 acres required to be provided to HDIL, in case the arbitration award goes in its favor. Though the agreement has been terminated by MIAL, it has been disputed by HDIL and the matter is presently under arbitration which leaves open the possibility of excess airport land being utilized for commercial development.

- MIAL had embarked on removal of encroachment from airport land citing aeronautical requirements. However, once the airport land becomes free of encroachments, 65.2 acres of this freed land would be available to HDIL for commercial development. As per OMDA, AAI was eligible to receive 38.7 *percent* of the gross revenue[1] generated by MIAL. As per the agreement between HDIL and MIAL, MIAL would not receive any revenue share for 65.2 acres of land of airport land available for commercial development. Consequently AAI, would not receive any revenue share for development of airport land by HDIL in case arbitration award goes in favor of HDIL.

- AAI has given an in-principle approval to MIAL (February 2014) to carry out in-situ rehabilitation of slums in Mumbai airport (clause 33 (10) of DCR). As per provisions of DCR, the built up area to be consumed on the site for the in-situ rehabilitation project is 2.5 times of available Floor Space Index (FSI). The balance built up area, after in-situ rehabilitation, can be taken as transferable development rights (TDR). Thus TDR benefits would be available to MIAL in case of in-situ rehabilitation of airport slum. In such an event, the same encroachment site at the airport would form the basis for TDR benefits to HDIL (under clause 3.11 of DCR which has already been partially granted) and to MIAL (under clause 33(10) of DCR) resulting in benefit to two different entities for the same encroachment site.

- As per clause 8.5.7 (c) (bb) of OMDA, MIAL had to inform AAI before entering into any agreement with a third party. However, MIAL, did not inform AAI of the agreement between itself and HDIL regarding removal of encroachments from airport land. The lack of information with AAI regarding this contract, to safeguard its interest also needs to be viewed in the context of a representative of AAI being a member of the board of MIAL[2].

- Report No. 2(Civil) of C&AG of India for the year ended 31 March 2011 on Government of Maharashtra had reported on "Slum Rehabilitation Schemes in Mumbai". It was brought out that the Government of Maharashtra had extended (30 March 2007) the provisions of DCR to MIAL, on payment of additional infrastructural charges at double the rate of normal infrastructure charges (subject

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[1] ***As per OMDA, AAI is eligible for 38.7 per cent of gross revenue earned from services/activities such as aeronautical as well as non-aeronautical. (Aeronautical services include the services provided as listed in schedule 5 of OMDA. Non-aeronautical services include the services provided as listed in schedule 6 of OMDA.)***

[2] ***AAI having 26 per cent share in MIAL***

to a maximum of ₹30,000 per tenement). However, only normal infrastructure charges were recovered from MIAL, leading to a short recovery of ₹84 crore.

AAI in its reply stated that:

(i) At the time of executing the agreement with HDIL, MIAL had not informed AAI of the same. However, as per OMDA clause 8.5.7, MIAL had the right to sub-lease any land for commercial use.

(ii) As per Article 18.1(b) of OMDA, the JVC does not have automatic right to extend the period but the extension is subject to review by AAI.

(iii) Land under encroachment has been shown as Encroached Land in the Draft Master Plan of 2011. Similarly, table 4-1 indicates land uses which include both aeronautical and non-aeronautical uses.

(iv) As per MIAL, there is no transfer of TDR to HDIL generated out of AAI encroached land. Further generation and any further transaction of TDR falls in the purview of the SRA/State Govt. The said grant of TDR is between the SRA and HDIL and AAI/MoCA is not a party to this transaction.

(v) In principle approval for the in-situ rehabilitation has been accorded by AAI. MIAL has also approached Govt. of Maharashtra to formulate Rehabilitation Scheme specific to Airport which is yet to be finalized. It has also been decided in the 19th OMDA Inspection Oversight Committee(OIOC) meeting on 1st October 2015 that MIAL will closely liaison with the State Government for finalization of its scheme for rehabilitation of slums which could thereafter be taken to the Union Cabinet for its approval, if necessary.

(vi) The Audit observation has become inoperative as the contract between MIAL and HDIL has been terminated by MIAL due to non-fulfillment of its obligation. The dispute between HDIL and MIAL is under arbitration and it is fait accompli in any such contract.

The reply furnished is not tenable in view of the following:

(i) AAI has acknowledged that it was not aware of the agreement between MIAL and HDIL despite the presence of representative of AAI on the Board of MIAL.

(ii) Audit has commented on the agreement entered into by MIAL with HDIL with maximum duration of 30 years (clause 8.5.7(e) of OMDA). By allowing an automatic extension of this contract, clause 8.5.7(e) has been violated. The clause 18.1(b) quoted by AAI, pertains to the extension of OMDA between AAI and MIAL and is not relevant to the audit observation.

(iii) AAI has confirmed that presently there is a proposal for in-situ development of encroached land. The audit concern is that this may lead to TDR benefits allowed under DCR of Maharashtra for such in-situ development benefits being allowed to different parties (HDIL under ex-situ development and another party for in-situ development of the same site).

(iv) The reply of the management that the dispute between MIAL and HDIL is fait accompli is incorrect. Audit has pointed out weaknesses in the operation of PPP which led to a possibility of transfer of AAI land to a third party without AAI's knowledge and to its detriment, even though AAI is represented on the MIAL Board. The present dispute under arbitration is a fallout of this lack of monitoring on the part of AAI.

The matter was reported to the Ministry in February 2016; their reply was awaited (March 2016).

2.2 Short realization of Annual Fee from MIAL resulting in loss of revenue to AAI

As per OMDA, MIAL had to share 38.7 *per cent* of its pretax gross revenues with AAI except for those specifically exempted. In contravention of OMDA terms, MIAL did not share revenues earned as non-refundable deposits made by bidders and additional water and electricity charges collected over and above the rates at which it paid to concerned authorities. AAI failed to recover these monies long after these violations were pointed by the independent auditors appointed by it.

Airports Authority of India (AAI) signed the Operation, Management and Development Agreement (OMDA) with Mumbai International Airport (Private) Limited (MIAL) on 4th April, 2006 thereby handing over the Chhatrapati Shivaji International Airport (CSIA), Mumbai to MIAL for development, operation and management for a period of 30 years, extendable by another 30 years.

As per clause 11.1.2.1 of the OMDA, MIAL has to pay to AAI an annual fee for each year during the term of the agreement, equal to 38.70 *per cent* of 'revenue' for the said year. The annual fee is payable in twelve equal monthly installments, on the first day of each calendar month. In case of non-receipt of monthly payment by AAI, interest for the delay would be charged at State Bank of India Prime Lending Rates (SBI PLR) +10 *per cent* p.a (clause 11.1.2.2 of OMDA).

'Revenue' is defined in the OMDA (clause 1.1 of OMDA) as "all pre-tax gross revenue of JVC, excluding the following: (a) payments made by JVC, if any, for the activities undertaken by Relevant Authorities or payments received by JVC for provision of electricity, water, sewerage, or analogous utilities to the extent of amounts paid for such utilities to third party service providers; (b) insurance proceeds except insurance indemnification for loss of revenue; (c) any amount that accrues to JVC from sale of any capital assets or items; (d) payments and/or monies collected by JVC for and on behalf of any governmental authorities under Applicable Law (e) any bad debts written off provided these pertain to past revenues on which annual fee has been paid to AAI".

Audit noticed that the independent revenue auditors appointed by AAI had highlighted some specific instances where revenue of MIAL were not shared with AAI. It was observed that AAI had not taken any corrective action on the matter, despite lapse of considerable time. The specific instances noticed are shown below:

(i) Non-refundable deposits collected by MIAL, not shared with AAI

MIAL had collected non-refundable deposits from bidderswhile tendering for allotment ofspace at the new terminal T2. Being non-refundable, these amounts constituted an income to MIAL. Till June 2015, MIAL had collected an amount of ₹ 31.47 crores on this account. It was noticed that MIAL had adjusted ₹ 18.10 crores out of it, towards its expenditure (2013-14 and 2014-15) and only shared the balance amount of ₹13.37 crore with AAI.

The independent auditor had statedin his report (for the quarter ended March 2013) that these non-refundable deposits are not recognized as income and hence not shared with AAI. MIAL in its response to AAI (June 21, 2014) stated that non-refundable deposits were essentially in the nature of recoupment of the cost of consultants appointed by MIAL for advising on business planning, concession planning, formulation of RFQ and RFP, commercial terms for T2 commercial tenders and other concessions and hence could not be treated as revenue. Audit did not notice any further effort on the part of AAI to demand share of the balance revenues.

The contention of MIAL that these items are recoupments and not to be recognized as revenue is not acceptable. As per terms of OMDA, the gross revenue of MIAL with a few specified exclusions has to be shared with AAI. Non-refundable deposits, even if collected as recoupment of expenses do not qualify for exemption under OMDA and hence ought to be shared with AAI.

Non-sharing of ₹18.10 crore of non-refundable deposits collected by MIAL with AAI has resulted in short realization of ₹ 7 crore revenue (38.70 *per cent* of ₹18.10 crore) and loss of interest of ₹ 2.02 crorethereonto AAI.

AAI in its reply (March 2016) stated that,as informed by MIAL, the above "Bid Development Cost" from bidders was collected towards cost of RFP process to ensure participation by serious bidders and only tender related expenditure were adjusted against such bid development cost and as such no revenue income accrued to MIAL in this regard. AAI further stated that the independent auditor has been instructed to verify the same including the justification of MIAL towards adjustment of bid development cost.

Management reply is not in line with the terms of the OMDA which does not allow adjustments of such expenses while arriving at the gross shareable revenue. Further action of AAI in this regard would be reviewed in future audits.

(ii) Additional revenue collected by MIAL as electricity and water charges from concessionaires not shared with AAI

MIAL provides electricity and water facilities to various trade concessionaires and recovers charges for these utilities at agreed fixed rates from them. MIAL has been recovering since December 2010, theseutility charges atrates higher than the actual applicable rates, payable to the authorities. The excess amount so collected is being retained by MIAL and was not shared with AAI.

The matter had been highlighted by the Independent Auditor (since December 2010). In response to AAI's demand (letters of June 2011 and March 2012) for release of payment towards excess utility charges collected, MIAL had stated that these utility charges are collected from the concessionaires as reimbursement of common area cost and not revenue. The matter had been referred to Ministry of Law and Justice (MoL&J) who observed (May 2012) that payments received and made by JVC for electricity charges, municipal taxes etc. do not form a part of the annual fee payable. AAI did not further pursue the demand with MIAL in view of this observation of MoL&J.

Audit noticed that the MoL&J opinion has only stated that utility charges collected from the trade concessionaires, to the extent that they are paid to the government authorities, does not form a part of revenue. However, MIAL collected additional amounts, over and above payments made to the authorities for these utilities. This additional amount retained by MIAL is an income of MIAL, which ought to be shared with AAI.

Over the period, April 2010 to March 2015, MIAL had recovered additional charges of ₹ 58.36 crore[1] (₹ 52.47 crore towards additional electricity charges and ₹ 5.89 crore towards additional water charges). This amount ought to have been regarded as revenue of MIAL and should have been shared with AAI as per clause 11.1.2.1 of the OMDA. Failure to do so had led to short realization of annual fee of AAI by ₹ 22.59 crore (38.7 *per cent* of ₹ 58.36 crore) and loss of interest of ₹ 18.62 crore thereon.

AAI in its reply (March 2016) stated that it has been decided after discussion with MIAL that any excess collection in this regard is to be shared with AAI. However, acceptance of said decision from MIAL for the same is awaited.

The reply needs to be viewed against the fact that the Independent Auditor has been highlighting this issue since December 2010 and AAI had not pursued the matter since May 2012.

In all the above instances, MIAL had not shared its revenue with AAI in line with the provisions of OMDA. Audit noticed that AAI has not taken any concrete steps for recovery of the revenue and safeguarding its own interests even when they had been highlighted by the independent auditor. This led to short receipt of ₹ 29.59 crore as revenue from MIAL and consequent loss of interest of ₹ 20.64 crore.

The matter was reported to the Ministry in March 2016; their reply was awaited (March 2016).

2.3 Non-realisation of revenue share as per provisions of agreement

Airports Authority of India (AAI) did not take the required action to protect its financial interests in terms of the provisions of Operation, Management and Development Agreements signed with MIAL and DIAL which resulted in non realisation of share of ₹ 29.62 crore by AAI in the revenues of MIAL and DIAL. AAI also sustained loss of interest to the extent of ₹ 13.86 crore (till March 2015) on the unrealised amount.

Airports Authority of India (AAI) signed on 4 April, 2006 two separate agreements viz. Operation, Management and Development Agreements (OMDA) with Delhi International Airport (Private) Limited (DIAL) and with Mumbai International Airport (Private) Limited (MIAL), thereby handing over Indira Gandhi International Airport (IGIA), Delhi and Chhatrapati Shivaji International Airport (CSIA), Mumbai to DIAL and MIAL, respectively, for development, operation and management of the airports.

[1] *As per Independent Auditor report for the quarter ended March 2015*

As per clause 11.1.2 of both the OMDAs, DIAL and MIAL have to pay to AAI an annual fee for each year during the term of the agreement, equal to 45.99 *per cent* and 38.70 *per cent,* of 'revenue' for the said year, respectively. The annual fee is payable in twelve equal monthly instalments, on the first day of each calendar month. In case of non-receipt of monthly payment by the due date, the AAI is entitled to recover intereston the amount due, at Prime Lending Rate of State Bank of India +10 *per cent* p.a. for the period of delay.The above clause of OMDA further stipulates that the applicable revenue used for final verification/reconciliation of the Annual Fee shall be the revenue of the JVC as certified by the Independent Auditor every quarter.

Further, clause 1.1 of both the OMDAsdefined 'Revenue' as "all pre-tax gross revenue of JVC, excluding the following: (a) payments made by JVC, if any, for the activities undertaken by Relevant Authorities or payments received by JVC for provision of electricity, water, sewerage, or analogous utilities to the extent of amounts paid for such utilities to third party service providers; (b) insurance proceeds except insurance indemnification for loss of revenue; (c) any amount that accrues to JVC from sale of any capital assets or items; (d) payments and/or monies collected by JVC for and on behalf of any governmental authorities under Applicable Law and (e) any bad debts written off provided these pertain to past revenues on which annual fee has been paid to AAI".

MIAL and DIAL constituted a Marketing Fund in April 2010 and August 2012, respectively, and started collecting 0.5 *per cent* and one per cent respectively of Net Sales from various concessionaires as Marketing Fund Charge. The objective of the Marketing Fund was to promote business of concessionaries at CSIA Mumbai and IGIA Delhi.

Audit observed that MIAL and DIAL had collected/billed from the concessionaires (till March 2015) an amount of ₹ 66.76 crore in the name of Marketing Fund (MIAL ₹ 14.90 crore and DIAL ₹ 51.86 crore)without sharing it with the AAI in terms of clause 11.1.2 of OMDAs referred above.Audit further observed that respective Independent Auditors, while certifying revenue of MIAL and DIAL, have been raising through the quarterly reports, the issue of non inclusion of the amount of Marketing Fund in the revenues of MIAL and DIAL. Thus non-sharing of the revenue by MIAL and DIAL with AAI resulted in short realization of ₹ 29.62 crore (MIAL ₹ 5.77 crore + DIAL ₹ 23.85 crore) to AAI and loss of interest of ₹13.86 crore (MIAL ₹ 2.02 crore + DIAL ₹ 11.84 crore) thereon (till 31 March 2015), as worked out in terms of above mentioned provisions of OMDAs.

AAI in their reply (February 2016) stated that:

(i) As there is no provision in OMDA with regard to utilization of revenue, for the promotion of the business of the concessionaires at the airport, in the name of Marketing Fund, they have communicated (February 2016) to MIAL and DIAL to treat the Marketing Fund as shareable revenue and remit the same to AAI at the applicable rate as per OMDA, since introduction of marketing fund including interest.

(ii) The Independent Revenue Auditors appointed under clause 11.2 of OMDAs have also been instructed to look into the matter and the issue would be taken up by the AAI representative in the Board meeting of MIAL/DIAL.

Fact remains that though constitution of Marketing Fund was in contravention of provisions of OMDA, AAI did not object to constitution of the fund. The Agenda and Board Minutes of MIAL/DIAL, reflecting the inputs of AAI representative on the Boards of MIAL/DIAL, while approving the decision of establishment of the respective Marketing Funds, were also not made available to Audit. Further, even after highlighting the matter by therespective Independent Revenue Auditors in their quarterly Revenue Audit Reports (for quarter ended December 2012 in case of MIAL and for quarter ended June 2014 in case of DIAL), AAI did not take appropriate action in the matter for more than two years. The action proposed by AAI would be reviewed in future audits.

Thus, AAI's failure in resolving the issue promptly has resulted in non realisation of revenue of ₹ 29.62 crore and loss of interestthereon to the extent of ₹ 13.86 crore.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

2.4 Irregular payments towards encashment of half pay leave

AAI allowed to its employees encashment of half pay leave/earned leave, on their retirement/superannuation/death,beyond the prescribed ceiling of 300 days,in contravention ofGoI/DPE guidelines, which resulted in irregular payment of ₹ 30.30 crore during the period from January 2006 to March 2015.

Department of Public Enterprises (DPE) had instructed (April 1987[1]) that the individual public enterprises may frame leave rules for its employees keeping the broad parameters of the policy guidelines laid down in this regard by the Government of India (GoI). DPE enhanced (August 2005) the existing ceiling on accumulation of earned leave from 240 days to 300 days for public enterprises. GoI allowed encashment of earned leave (EL) and half pay leave (HPL) subject to overall limit of 300 days with effect from 1 January 2006. DPE, referring to its instructions of April 1987, issued clarification on 17 July 2012[2] that EL and HPL could be considered for encashment of leave on retirement subject to the overall limit of 300 days. Thus, in terms of DPE instructions of April 1987 *ibid*, public enterprises were required to follow the overall ceiling of 300 days for encashment of EL and HPL on retirementof their employees.

Audit observed (January 2015) that:

- Though the guidelines did not permit for encashment of HPL till 1 January 2006, Airports Authority of India (AAI) allowed encashment of 240 days HPL on superannuation/resignation/death since 29 August 2000. The ceiling of 240 days was further enhanced in November 2004 to maximum of leave standing at the credit of the employees on the date of superannuation/resignation/death. Thus, encashment of HPL during the period from 29 August 2000 to 31 December 2005 was in violation of guidelines of GoI and DPE. In the absence of details, the excess amount paid during this period could not be ascertained.

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[1] *OM No.2(27)85-BPE(WC) dated 24 April 1987*
[2] *OM No.2(14)/2012-DPE(WC) dated 17 July 2012*

- Contrary to GoI/DPE guidelinesfor encashment of EL/HPL on superannuation /resignation/death subject to the ceiling of 300 days, AAI allowed encashment of EL/HPL in excess of 300 days, resulting in irregular payment of ₹30.30 crore to its employees, during the period from January 2006 to March 2015.

- As per clause 43 of AAI Act 1994, each regulation issued by AAI is required to be laid before the Parliament. However, whether the AAI (Leave) Regulations, 2003, notified on 13 June 2003, allowing encashment of 240 days of HPL beside encashment of 300 days of EL, were laid before each House of Parliament (as required under Clause 43 of AAI Act 1994), could not be verified in audit due to non production of relevant records sought by Audit.

Management replied (September 2013 and October 2015) that:

(i) As per Clause 42(2)(b) of the AAI Act, AAI is empowered to frame its own regulations, following due procedure of notifications such as approval of Ministry of Civil Aviation and finally duly vetted by the Ministry of Law. Accordingly, Airports Authority of India (Leave) Regulations, 2003 were notified which contain the provision of encashment of HPL and only the ceiling was raised in November 2004 to raise it to maximum limit of leave standing at the credit of employees on the date of separation from the service.

(ii) AAIwas not paying the gross excess amount/leave at par with the employees of GoI i.e. 730 days towards Child Care Leave, 15 days for Paternity Leave and EL encashment while availing LTC in addition to encashment of EL standing at the credit at the time of superannuation.

(iii) The said benefit was applicable to executives and non-executives and any alteration in the same will have Industrial Relation (IR) problem.

Reply of the management was not acceptable in view of the following:

(i) Leave encashment beyond the overall ceiling prescribed by DPE/GoI was not permitted in view of DPE instructions of April 1987, followed by DPE's clarification of July 2012 reiteratingthe overall limit of 300 days to be considered for encashment of EL and HPL on superannuation. Further, despite requests (January 2015 and February 2016) made by Audit, AAI did not furnish the documentary evidence relating to laying of AAI (Leave) Regulation, 2003, before each House of Parliament.

(ii) The comparison made by the Management between the benefits applicable to AAI and Central Government employees was irrelevant because DPE guidelines are not applicable to Central Government employees. Further, despite following the DPE/GoI guidelines for other purposes like revision of pay scales, credit of leave in a year, maximum ceiling for encashment of EL, etc., AAI had framed rules for encashment of HPL which were inconsistent withDPE's guidelines.

(iii) Non-adherence to DPE guidelines in the name of IR problem is not acceptable as before deviating from the guidelines, the AAI should have raised the issue, through their administrative ministry, with the DPE.

Thus, payment made by AAI towards encashment of EL/HPL in violation of GoI/DPE guidelines, resulted in irregular payment of ₹30.30 crore (January 2006 to March 2015).

The matter was reported to the Ministry in January 2016; their reply was awaited (March 2016).

2.5 Poor utilization of infrastructure developed with Government funds at Birsi airport, Gondia resulting in recurring losses for its maintenance

Government budgetary funds (₹198.80 crore) were used to develop Birsi airport at Gondia with the objective of supporting a private flying training institute. The revenue earned by Airports Authority of India (AAI) from this institute was insufficient to meet the operation and maintenance cost of the airport. Even with utilisation of the airport infrastructure by another institute it failed to generate enough revenues to cover the running costs of the airport. Meanwhile, AAI established another institute at Gondia for better utilisation of the airport facilities. However, the institute could not fulfil its objectives or utilise the airport infrastructure. This left AAI with recurring losses; the cumulated losses incurred by AAI on Gondia airport during April 2009 to March 2015 being ₹ 27.31 crore.

Ministry of Civil Aviation (MoCA) intended (February 2005) to set up a flying training institute with development of an airport at Gondia, Maharashtra through Government of India (GoI) budgetary support. It was subsequently decided (May 2005) that the Birsi airport at Gondia would be taken over from Maharashtra Industrial Development Corporation (MIDC) and developed to be a part of the flying training institute proposed to be set up at Gondia. The Detailed Project Report (DPR) prepared for the project estimated a total project cost of ₹ 240.01 crore (₹ 118.62 crore for setting up the flying institute and ₹ 121.39crore for development of Birsi airport at Gondia).

Subsequently (November 2007), MoCA decided that AAI would develop the Birsi airport at Gondia with budgetary support and the flying training institute would be constructed, developed and managed by a private joint venture (JV) company. While approving Government Budgetary Support (GBS) for the airport development project, MoCA directed (November 2007) that the recurring costs of the airport be borne from the resources of AAI.

Government approved (November 2007) the proposal to establish the flying training institute on JV mode. JV agreement between M/s. CAE Inc., Canada (CAE) and AAI was signed in February 2008. The shareholders agreement between AAI and International Flight School (Mauritius) Ltd. (IFSML) (an associate company of CAE) was signed in April 2008. AAI holds (March 2014) 45.36 *per cent* of the equity stake in National Flying Training Institute (NFTI) (the other 51 *per cent* held by IFSML and 3.64 *per cent* by M/s. Pawan Hans Helicopters Limited). AAI was required to provide land on lease to the JV for development of NFTI.

AAI has (March 2014) released ₹ 36.03 crore as equity contribution for the institute and allotted 12 acres of land at Birsi airport for setting up NFTI at a lease rent of ₹ 110 per sq.m.per annum.

The actual expenditure for development of the Birsi airport as per initial plan was ₹ 117.82 crore against which Government released ₹ 117.95 crore. This work was completed by August 2010. AAI highlighted the need for additional infrastructure at the Birsi airport for operation of bigger aircraft (A-320 aircraft) and proposed to take up a second phase of the development with government budgetary support which was agreed to by MoCA. The cost estimate for the second phase was ₹ 143.59 crore against which cumulative expenditure (upto July 2014) has been ₹ 83.82 crore. Till March 2015, AAI has received Government grant of ₹ 80.85 crore for the second phase of development of Birsi airport.

The maintenance of the Birsi airport is the responsibility of AAI. Over the last six years of operation (April 2009 to March 2015), AAI has incurred a revenue expenditure of ₹ 39.77 crore. Against this expenditure, AAI has earned the following revenue on the Birsi airport at Gondia during April 2009 to March 2015.

(i) AAI earned a revenue of ₹ 11.07 crore from NFTI during April 2009 to March 2015. AAI has not received any dividend from NFTI as the institute has been incurring losses.

(ii) The Indira Gandhi Rashtriya Udaan Academy (IGRUA), Rae Bareli commenced operations at Gondia for approx. six months a year since December 2007. AAI earned revenue of ₹ 1.28 crore during the period from 2009 to 2015.

(iii) AAI established (August 2010) another institute National Institute of Aviation Training and Management (NIATAM) at Gondia at a cost of ₹ 51.91 crore, for training aircraft maintenance engineers, flight dispatchers, cabin crew and ground handling personnel. So far, NIATAM has only imparted training to AAI Air Traffic Control staff. AAI has earned revenue of ₹ 0.11 crore on this account.

Thus, against expenditure of ₹ 39.77 crore, AAI earned a revenue of ₹12.46 crore on the Birsi airport at Gondia during April 2009 to March 2015. AAI, thus, has incurred an operational loss of ₹ 27.31 crore during the period from April 2009 to March 2015.

Audit has the following observations in this context:

- Till date, an expenditure of ₹ 201.64 crore has been incurred (of which ₹ 198.8 crore are from Government budgetary funds) for development of the Birsi airport at Gondia. No commercial flights are operated or scheduled for operation to and from Birsi airport at Gondia.
- Audit further observed that AAI had been billing NFTI at discounted rates (during March 2009 to July 2012) i.e. @10 *percent* of the normal rate applicable for Category I[1] flying institutions though it is a Category II[2] flying institution and ought to be billed at the normal rate. It was only subsequently (on the basis of clarification dated 03.02.2012 received from Central Head Quarters (CHQ) of

[1] ***Category I : Flying clubs, flying training administrations registered as education societies and operating on no profit no loss basis : nominal charges of 10 per cent of normal rates.***

[2] ***Category II: All other flying clubs/ flying institutions would be charged at the normal rates for various AAI services***

AAI), that the error was rectified and outstanding bills raised on NFTI at normal rates. NFTI is yet to pay the difference and the accumulated outstanding dues from NFTI as on March 2015 amounts to ₹ 6.72 crore.

In reply, the AAI stated (November 2015) the following:

(i) Government decided to set up a new flying training institute as pilots trained at IGRUA would not meet the demand of trained pilots. The institute was set up at Birsi airport, Gondia as the airstrip was found suitable for such an institute. The profit or loss at an airport depends on various factors like frequency of operations, type of aircraft, non-traffic revenue etc. and can be overcome by effective management.

(ii) The Institute is serving the nation by creating skilled pilots to meet our Aviation Industry demand. The assets/aviation infrastructure created at Birsi Airport, Gondia is sufficient to handle commercial domestic flights for which AAI is requesting the airlines to start schedule operations. Since the airlines plan their flight schedules as per their market survey and fleet availability, the commercial flights have not yet commenced.

(iii) The aviation industry also require aircraft maintenance engineers, flight dispatchers, cabin crew and ground handling personnel and need to be adequately trained. As there were no organised schools in the country to cater for these requirements, and development works of airstrip at Birsi Airport, Gondia were in progress to facilitate establishment of NFTI, Government suggested that NIATAM may also be set up at the same location. AAI had to join hands with a private Institute for providing training and managing day to day business of the institute. The collaboration could not succeed and the private party agreement was terminated. The loss being incurred by Birsi Airport cannot be attributed to the Institute as AAI is making all efforts to utilise the assets created for training facilities.

(iv) With regard to payment of difference by NFTI, the representatives of AAI in the Board constantly pursue with the NFTI Board for settlement of its outstanding dues. In the Board Meeting held in September 2015, it was decided that NFTI will make a payment of approx ₹ 13 lakhs p.m. to AAI towards settlement of dues.

The reply is not acceptable in view of the following:

(i) The demand for pilot training at NFTI, as envisaged in the DPR, has not been realised. The number of pilots actually trained was 336 as against 770 number of pilots targeted to be trained during the period from 2008-09 to 2014-15. The short utilisation of seats contributed to losses in operation of NFTI.

(ii) No commercial flights were operational or intended to/from the airport while envisaging its development for NFTI. No commercial flights have been scheduled subsequent to the development of the airport, either. Hence, it may be correct to state that the development of infrastructure at Gondia was intended solely for meeting the requirement of NFTI (as brought out in 139th meeting of AAI Board, August 2010).

(iii) Audit noticed that AAI carried out major additional works at Birsi airport (₹ 83.82 crores spent on phase II development) increasing the terminal building capacity and extending the runway. The additional infrastructure has not been put to use either by NFTI or by commercial flight operation. Besides, though AAI stated that it had time and again requested the airline operators to start operations, no supporting documents in this regard was furnished by AAI despite being requested for by Audit.

(iv) NIATAM, created at an expenditure of ₹ 51.91 crore, could not achieve its objective of training aircraft maintenance engineers, flight dispatchers, cabin crew and ground handling personnel. Few AAI personnel were trained at this institute rendering the cost of establishment and maintenance of NIATAM largely unfruitful.

(v) The arrears bills on NFTI, correcting the concessional rates charged for the period March 2009 to July 2012, were raised by AAI in September 2012. Till March 2015, NFTI has not paid the arrears. Besides, traffic and non-traffic dues have accumulated to ₹ 6.72 crore (March 2015). The pursuance by AAI, thus, has not yielded the desired result.

Thus, significant Government budgetary funds have been employed (₹ 198.80 crore) for development of Birsi airport at Gondia with the objective of supporting NFTI, a private flying training institute. The revenue earned by AAI from NFTI was not sufficient to meet the operation and maintenance cost of the airport. Subsequently, AAI established another institute NIATAM at a cost of ₹ 51.91 crore intending utilisation of infrastructure facilities created at Gondia. However, the expenditure on the institute remained largely unfruitful as neither did NIATAM fulfil its training objectives nor did it utilise the infrastructure created at Birsi airport. Utilisation of infrastructure Birsi airport at Gondia by another institute, IGRUA, also did not generate enough revenues to cover the operation and maintenance costs of Birsi airport, leaving AAI with recurring losses; the cumulated losses incurred by AAI on Birsi airport during April 2009 to March 2015 being ₹ 27.31 crore.

The matter was reported to the Ministry in September 2015; their reply was awaited (March 2016).

CHAPTER III: MINISTRY OF COAL

Eastern Coalfields Limited

3.1 Avoidable loss due to short payment of advance income tax

Incorrect estimation of taxable income and consequent short payment of advance income tax by Eastern Coalfields Limited resulted in avoidable payment of interest of ₹ 12.38 crore for the financial years 2013-14 and 2014-15.

Under Section 208 read with Section 211 of the Income Tax Act, 1961 (Act), each company is required to pay advance tax at the prescribed rates on due dates in quarterly instalments pertaining to a financial year, in case the amount of income tax payable by the company during that year exceeds ₹ 10,000. In the event of short payment of advance tax, the company is liable for payment of interest under the provisions of the Act. According to Section 234(B) of the Act, if the advance tax paid is less than 90 *per cent* of the assessed tax, simple interest at the prescribed rate is leviable for every month or part thereof, from first April of the assessment year to the date of determination of income under the Act, on the amount by which the advance income tax paid falls short of the assessed tax. Section 234(C) of the Act also provides for payment of interest at the prescribed rate on the amount of short paid installments of advance tax for a period of three months in case of default made in payment of first, second and third installment and for one month in case of shortfall in payment of last installment.

Audit observed (August 2015) that Eastern Coalfields Limited (ECL), a subsidiary of Coal India Limited, engaged in coal mining activities, failed to correctly assess the amount of advance income tax during the financial years 2013-14 and 2014-15. As a result, ECL paid less advance income tax and eventually had to pay interest of ₹ 4.83 crore and ₹ 3.00 crore under Section 234(B) for the financial years 2013-14 and 2014-15 respectively for short payment of advance tax. Similarly, under Section 234(C), ECL paid ₹ 3.05 crore and ₹ 9.53 crore for the financial years 2013-14 and 2014-15 respectively for short payment of individual instalments of advance tax. Thus, ECL paid interest amounting to ₹ 20.41 crore to Income Tax Department, due to incorrect estimation of taxable income and delayed payment of advance tax during the financial years 2013-14 and 2014-15, of which ₹ 12.38 crore was avoidable which is detailed as under:-

Year	**Interest u/s 234(B) in ₹**	**Interest u/s 234(C) in ₹**	**Total**
2013-14	4.83 crore	₹ 3.05 crore (including ₹ 60.35 lakh for the last quarter)	₹ 7.88 crore
2014-15	3.00 crore	₹ 1.50 crore for the 4th quarter	₹ 4.50 crore
Total			**₹ 12.38 crore**

While admitting the facts, the Management stated (November 2015/ January 2016) that:

- Payment of interest under section 234(B) and 234(C) of the Act was due to unanticipated additional gain of ₹ 226.15 crore on sale of coal as per Memorandum of Understanding (January 2014) with NTPC and write-back of very old liabilities at the fag end of the financial year 2013-14.
- Till the financial year 2013-14, ECL was not liable to pay tax under the provision of Minimum Alternate Tax (MAT) of the Act. In February 2015, the Board for Industrial and Financial Reconstruction (BIFR) declared ECL out of its sickness considering the fact that the paid up capital of ECL and free reserves as on 31 December 2014 exceeded the accumulated losses, resulting in applicability of MAT for the financial year 2014-15. Thus ECL became liable to pay tax under MAT only in the month of February 2015, although ECL paid advance tax without considering the MAT as on 15 June/September/December 2014.
- Though ECL paid interest at the rate of 12 *per cent* per annum under section 234(B) and 234(C) for default in payment of income tax, the actual loss was only one-fourth of the amount of interest paid, considering the fact that ECL earned interest from its investment at an average rate of more than 9 *per cent* per annum on the short amount of advance Income Tax paid. Further, for all practical purposes, the interest paid on belated payment of Income Tax was contributing to the national exchequer.
- ECL, however, assured that proper care would be taken in future to avoid any such occurrences.

The Ministry in its reply (February 2016) endorsed the view of the management.

The above contentions of the Management/Ministryare not tenable in view of the following:

- MOU forsale of coal was executed between ECL and NTPC on 9 January 2014. ECL realised advance amount of ₹ 575 crore from NTPC on account of MOU within 10 March 2014 (₹ 165 crore in January 2014, ₹ 325 crore in February 2014 and ₹ 85 crore on 10 March 2014). Hence, ECL could have estimated the receipts for payment of advance income tax which was due on 15 March 2014, as by 10 March, 2014, 80*per cent* of release had already taken place (₹ 575 crore out of ₹ 717.50 crore) and ECL could estimate the lifting in the ensuing 21 days.
- For the purpose of Section 234 (B), ECL could easily estimate 90 *per cent* of the assessed tax for the financial year 2013-14 but the company did not do so. Consequently, ECL also paid interest of ₹ 4.83 crore as per section 234(B) for delayed payment of advance income tax for the financial year 2013-14.
- It is pertinent to mention that due to failure in making correct estimation of advance Income Tax by ECL management for the financial year 2013-14, ECL paid interest of ₹ 3.05 crore as per section 234(C) for the whole year out of which only ₹ 60.35 lakh was for delayed payment of 4th quarter instalment of advance income tax. While there was no justification for inability to estimate the receipts for the first three quarters, even for the fourth quarter the receipts were estimable as per audit's view.

- As ECL was under BIFR during the financial year 2013-14, the company got the above benefit and thereby MAT liability as per u/s 115JB was nil. However, ECL came out of BIFR in February 2015 on the ground that the net worth surpassed the accumulated loss of the company. Thus, ECL was not eligible to get the above deduction u/s 115JB for the financial year 2014-15. Further, it was also seen from the BIFR Report (February 2015) that ECL made requests to the Board to de-register the company from the purview of BIFR as the net worth of the company had turned positive based on its audited Balance Sheet as on 31 December 2014. Hence, the management was well aware of the fact that the MAT deduction u/s 115JB for the financial year 2014-15 would not be available as the company had positive net worth as on 31 December 2014. Though the company was discharged from BIFR in February 2015, but due to the above facts, the company had enough time and scope for payment of 90*per cent* of the assessed income tax as per section 234(B). However, the company was not able to assess the payment of advance income tax u/s 234(B) and 234(C) for the years 2013-14 as well as 2014-15. Had ECL paid advance tax for the financial year 2014-15 as per MAT, immediately after coming out from BIFR in February 2015, ECL could have saved at least ₹ 4.50 crore comprising ₹ 3.00 crore for payment of interest under Section 234(B) for short payment of advance tax during the financial year 2014-15 and ₹ 1.50 crore under Section 234(C) for short payment of fourth instalment of advance tax due as on 15 March 2015. Thus ECL could have avoided payment of interest of ₹ 12.38 crore (₹ 7.88 crore and ₹ 4.50 crore for the financial year 2013-14 and 2014-15 respectively) by prudent tax management.
- The reply of ECL that it earned interest is not tenable as the company is not in the business to earn interest on unpaid Govt dues. Further, the interest earned due to short payment of advance income tax is also taxable for the financial years 2013-14 and 2014-15 as per Income Tax Act.
- The company had the opportunity to review the unusual variation in annual profit before tax and other factors and revise their estimated taxable income while paying the quarterly instalments of advance income tax due in June, September, December and March of the respective years by closely monitoring its actual income and expenditure*vis-a-vis* the estimates which could reduce the difference to the minimum extent as possible.

Thus, due to absence of a well defined system for working out the taxable income based on realistic inputs, ECL incurred avoidable loss of ₹12.38 crore on account of short and delayed payment of advance income tax during the financial years 2013-14 and 2014-15.

Neyveli Lignite Corporation Limited

3.2 Avoidable expenditure

Drawal of loan far in advance of requirement and subsequent foreclosure resulted in an avoidable expenditure of ₹10.31 crore.

Government of India (Ministry of Coal) sanctioned (June 2011) a project for installation of a 2x500 MW Neyveli New Thermal Power Station (NNTPS) at Neyveli. The estimated cost of the project (₹ 5907.11 crore) comprised term loan (₹ 2500 crore), other borrowings (₹ 665.17 crore), foreign currency loan (₹ 969.81 crore) and equity (₹ 1772.13 crore). The Ministry also directed the Company to finance the project on 70:30 debt equity basis and to complete Unit I and Unit II within 48/54 months respectively i.e., by June 2015 and December 2015.

After retendering the project twice, the Company issued Letter of Award (LOA) to BHEL for erection of Steam Generator and Auxiliaries in October 2013 and for Steam Turbine Generator in December 2013 with the commissioning of the Project scheduled for October 2017 and April 2018.

In the meantime, the Company entered into (March 2012) an agreement with State Bank of India for a loan of ₹ 2500 crore.The company withdrew ₹100 crore (March 2012) out of which only ₹ 34.92 crore could be utilized up to December 2013. The Board subsequently decided (December 2013) to foreclose the loan and go in for a fresh loan later when the project gets momentum and to meet the current fund requirements from internal resources. Accordingly, the Company foreclosed the SBI loan on 23 February 2014, after payment ₹ 23.47 crore[1] as interest and other charges on the loan.

Audit observed that:

- The Company was aware that the Tender committee had recommended (February 2012) not to process one out of the two technically feasible bids and that in case the contract was to be retendered, it would take minimum of nine months; hence the LOA could not have been released as per the scheduled date.
- At the time of entering into the agreement with SBI, LOA was not issued to any of the packages of the NNTPS project.
- As on 31 March 2012, the Company had surplus funds of ₹ 3275.20 crore in short term deposits which could have been utilized to meet the temporary financial needs.

Thus, drawal of loan far in advance of the requirement led to an avoidable expenditure of ₹ 23.47 crore.

The Company stated (October 2015) that tendering activity of project activity was delayed and consequently the order for main plant packages to BHEL was released only in October 2013 and December 2013 with the revised scheduled commercial operation date as April 2018. In order to avoid restructuring of existing loan and avail the advantage of softening interest rate in the market, it had pre closed the existing loan.Further,it invested the loan amount in short term deposit and earned ₹13.16 crore as interest.

The reply of the company may be viewed in light of the following:

- The Company drew (March 2012) the loan even before the issue of LOA to BHEL in October and December 2013 and thus the drawal of loan was not need-based and in line with the progress of work.

[1] ***₹20.53 crore (Interest Paid)+₹2.76 crore (upfront fee paid) + ₹0.18 crore (legal charges paid)***

- The Company could have utilized its own surplus funds in term deposit even if it had anticipated delay in entering into alternative arrangement with banks.
- The purpose of the loan was to finance the project and not earn interest by investing the same in short term deposits.

Thus, drawal of loan far in advance of the requirement led to an avoidable expenditure of ₹ 10.31 crore[1], even after considering the interest earned thereon.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

[1] ***₹23.47 crore minus ₹13.16 crore (interest earned on short term deposit)***

CHAPTER IV: MINISTRY OF COMMERCE AND INDUSTRY

ECGC Limited

4.1 Blocking of funds on account of failure to implement IT Solution System

Failure of the Company to implement its IT Solution System resulted in blocking of funds of ₹42.67 crore on account of advance payment for software licenses and part payment for unutilised hardware with expired warranties and loss of interest of ₹ 3.56 crore, besides the burden of maintaining the existing system and ending up with no upgradation after lapse of more than four years since the scheduled Go-live date.

ECGC (Company), entered (June 2010) into an agreement for implementation of an integrated IT solution 'Online Credit Insurance System (OCIS)' with HCL Technologies Limited (HCL) at a cost of ₹ 124.41 crore, to be paid over a period of eight years. HCL acting as the System Integrator was responsible for providing an Integrated IT Solution for implementing ECGC-OCIS comprising of development and/or integration of application software, co-hosting of Primary Data Centre and Disaster Recovery Centre and Maintenance and operation of the setup for a period of eight years from the Go-live date being July 2011. The mile stones as per the Agreement were not achieved and there was a delay of 4 years and 6 months as of December 2015. Board instructed (February 2016) to legally examine the termination of contract with HCL and the same was under progress (February 2016). Total amount of ₹ 42.67 crore (₹ 25.96 crore + ₹ 16.71 crore) was paid to HCL under this contract.

Audit observed the following in this regard:

- The System Requirement Specifications (SRS) documents that were prepared by HCL in consultation with the Company did not capture the process flow/business rules in totality. Although the Board considered the significance of SRS and emphasized the need to examine the SRS in great detail before it was finalized and frozen in December 2010, during User Acceptance Testing (UAT) stage in 2014, it was realized that the process description in SRS documents were elementary and had to be reworked. This resulted in time overrun.

- HCL as System Integrator entered into (October 2011) tripartite agreement with SFS, a Company in Turkey, for granting software licenses for the core insurance software. Although the project implementation depended heavily on software development and delivery by SFS, there were numerous differences of opinions and disagreements between HCL and SFS. As per the tripartite agreement the supplier of licenses retained the property rights in source code and object code and in the absence of terms for transfer of source code in the agreement, HCL, could not exercise any control over the timely delivery of software and licenses for Company's utilisation. Ultimately, the agreement with SFS was decided to be terminated (February 2015).

- Based on the initial project plan of going live in July 2011, HCL procured the entire data centre hardware which was installed in 2010-11 and as per the terms of contract, 70 *per cent* of the payment being ₹ 16.71 crore was released against the delivery of the hardware. The procurement of hardware was not synchronised with the progress of the project and when the hardware was delivered, the SRS documents were still under preparation. The hardware was not utilised by the Company as the software was not yet ready and now as the agreement with HCL was proposed to be terminated (February 2016), the warranty for the entire data centre hardware had already expired. The Company informed that it would explore the possibility of alternate use of the hardware.

- Though the Agreement with HCL provided for payment after successful completion of installation and commissioning of various components of OCIS and successful completion of UAT and also explicitly prohibited payment of advance, the Company released (August 2013/March 2014) ₹ 25.96 crore against bank guarantees to HCL as advance towards system software licenses. This was despite repeated failure of HCL in meeting the completion schedule of the project. The Board decided (February 2016) to invoke the bank guarantees and recover the advance paid to HCL. Thus, the release of payment as advance without achieving respective mile stones resulted in blocking of ₹ 25.96 crore.

- Company decided (February 2015) to terminate the contract with SFS and Board accepted (February 2015) HCL's proposal to complete the project on the basis of bespoke software[1] developer, within 15 months of the 'new start date' without any additional cost.HCL, however, did not accept the go-ahead given by ECGC (April 2015) and informed (December 2015) that it would be unable to adhere to some clauses of the contract. Board instructed (February 2016) to examine the termination of the contract with HCL and this was under progress (February 2016).

- Despite abnormal delays in the project, the Company did not issue any notice indicating levy of liquidated damages to the extent of ₹ 6.22 crore on HCL as per the terms of contract. The acceptance of a 'new start date' without any amendments/addendum to the Master Service Agreement (MSA) may impact the ability of the Company to protect its financial rights and claim for compensation for the delays from HCL as per the terms of the agreement. The Company also did not invoke the specific clause relating to material breach of the contract with reference to failure in adhering to the time frame and enforce the Performance Guarantee of ₹12.44 crore. Board decided (February 2016) to invoke the Performance Guarantee after legal advice on termination of contract.

The Management stated (November/December 2015) that:

[1] ***Custom software also known as bespoke software or tailor-made software.***

(i) SRS was a technical document to be prepared by HCL, in consultation with ECGC and that it had provided all information including circulars, office orders, functional requirement specification and other documents. Further, it was stated that SRS was prepared after due analysis of the shared documents and interviews with ECGC domain expert and HCL had not shared the inputs provided by ECGC to its developers and Third Party Developers in its entirety.

(ii) The advance payment was released to ensure some fund flow to the developer without which the interest to complete the project would have waned.

The reply of the Company was not tenable as HCL had raised the issue with regard to the quality of the SRS prepared as a counter to the 6000 feedbacks given by ECGC during UAT and the SRS documents were strengthened (2014) jointly by both the parties. Company could not ensure completion of project either through the third party vendor of core insurance software, SFS or directly through HCL by the Bespoke application method. The release of advance payments to HCL in violation of the terms of Master Agreement also failed to ensure successful completion of project. Further, Company also failed to issue notice for liquidated damages or invoke Performance Guarantee while granting 11 extensions to HCL upto April 2015.

Thus, the Company invested substantial resources in terms of money and manpower for the project development but even after a delay of more than four years since the agreed Go-live date, it failed to upgrade its systems and continues to bear the burden of maintaining the existing system. With the cancellation of the project, the Company has ended up with blocked funds amounting to ₹ 42.67 crores (₹ 16.71 crores + ₹ 25.96 crore) with loss of interest to the extent of ₹ 3.56 crore (on the advance of ₹ 25.96 crore paid in violation of terms of contract, for the period upto February 2016).

The matter was reported to the Ministry in January 2016; their reply was awaited (March 2016).

CHAPTER V: MINISTRY OF CONSUMER AFFAIRS, FOOD AND PUBLIC DISTRIBUTION

Food Corporation of India

5.1 Export of wheat

While finalising tenders for export of wheat, Food Corporation of India did not compare the rates offered at different ports, which resulted in short realisation to the tune of ₹ 13.75 crore. The Corporation also incurred avoidable expenditure of ₹ 20.67 crore due to bulking of stock at ports and the balance stock not exported was transported back to various depots. Excess payment of ₹ 6.22 crore was also made to Handling and Transport (H&T) contactors due to application of wrong clause. Unjustified payment of ₹ 8.01 crore was also made to Clearing and Handling Agents (CHAs) for work under their scope but not carried out by the CHAs. Failure to pursue claims timely and vigorously resulted in non-receipt of Service Tax Refund from Central Public Sector Undertakings (CPSUs) amounting to ₹ 20.09 crore.

5.1.1 Introduction

Food Corporation of India (FCI) was set up under the Food Corporations Act, 1964 to fulfil the objectives of the Food Policy viz. (a) Effective price support operations for safeguarding the interests of the farmers, (b) distribution of food grains throughout the country for public distribution system and (c) maintaining satisfactory level of operational and buffer stocks of food grains to ensure nation's food security.

Considering the constraints of storage space for food grains faced by FCI and that stocks far exceeded the buffer stock norms, the Cabinet Committee on Economic Affairs (CCEA), approved (3 July 2012) the following:-

- Export of 20 Lakh Metric Tonnes (MTs) of wheat from Central Pool stocks of FCI through the Central Public Sector Undertakings (CPSUs) viz., State Trading Corporation of India Limited (STC), Projects and Equipment Corporation Limited (PEC) and Minerals and Metals Trading Corporation Limited (MMTC).
- Constitution of an Empowered Committee authorised to decide the modalities of export such as determining the export price from tender to tender, other operational issues regarding movement, timely payment from CPSUs to FCI and any other exigencies arising on day to day basis.
- Reimbursement of loss by the Government to FCI on account of exports calculated as the difference between the economic cost to FCI and its realisation from the exporting CPSUs after deduction of actual port expenses and their commission at the rate of 2.5 *per cent* for which additional funds over and above Budget estimate would be provided.

As per approval of CCEA, export of wheat was carried out in two phases. During Phase I (September 2012 to July 2013) 20 lakh MTs was approved for export which was further increased to 45 lakh MTs, subsequently. During Phase II (December 2013 to May 2014) 20 lakh MT was approved. Out of 65 lakh MTs of wheat approved for export, 57.98 lakh MTs was exported during the two phases of which four ports located in Western Region accounted for export of 30.59 lakh MTs, constituting 52.76 *per cent* of total exports as shown below:

Name of Port	**Quantity exported (Lakh Metric Tonne)**	**Value (₹ in crore)**	**Associated CPSU**
Kandla	11.28	1934.16	PEC
Mundra	14.66	2518.01	STC
Pipavav	3.90	661.94	MMTC
Goa	0.75	125.94	MMTC
Total	**30.59**	**5240.05**	

As more than 50 *per cent* of the exports were made through these ports in western region, an audit on export of wheat by FCI in West Zone was taken up from May 2015 to July 2015. The period from 2012-13 to 2013-14 (extended up to 30 June 2014) has been covered under this audit. The important findings are as under:

5.1.2 Audit findings

5.1.2.1 Deficiencies in tendering process

(a) Prequalification criteria changed after NIT resulting in restricted competition

A tender for appointment of Ad-hoc Handling and Transport (H&T) contractors at Pipavav Port was floated on 11 July 2012. A corrigendum was issued on 14 July 2012 by FCI with the additional clause, *"the prospective bidders should have consent letter from the respective port Authority for carrying out H&T operations in their port premises"*. This was done as M/s APM Terminals, Pipavav {formerly Gujarat Pipavav Port Limited (GPPL)}, the Port Authority had furnished a list of six cargo handling agencies registered with Pipavav port and insisted that FCI should restrict the bids from these six agencies or those who can register with them.

Audit observed that though the condition of consent letter from Port authorities was not insisted by GPPL, the same was included in the corrigendum and that four agencies were disqualified due to non furnishing of consent letter from the Port Authorities. Thus, out of the five parties the only party who qualified was the Port Authority (GPPL) itself at quoted rate of 275 *per cent* ASOR[1], while the average rate of all the Depots in Gujarat region in June 2012 was 139 *per cent* ASOR. This resulted in an additional expenditure of ₹ 4.52 crore on the total quantity exported from Pipavav port. Thus, due to inclusion of additional condition all the parties except the Port Authority were disqualified and contract was awarded to the single party.

The management replied that since time was of essence and arrangements had to be done on war-footing basis without any loss of time, it was decided to complete all formalities

[1] *Above Schedule of Rate*

by allowing seven days time. Further, as private ports had raised concerns of security in port premises and efficient carrying out of operations, only registered contractors or their authorised agencies were allowed for submitting tender and that no favour was extended to any party by additional clause.

The Management reply is not tenable as the additional clause inserted by FCI, eliminated even the registered bidders and only the Port Authority became the sole bidder.

(b) Insufficient time allowed for submission of tender, in violation of Central Vigilance Commission (CVC) guidelines

As per the CVC guidelines sufficient time of four to six weeks in case of advertised/ global tenders and three to four weeks in case of limited tenders is allowed except in case of recorded emergencies.

The Empowered Committee (EC) in its meeting dated 7 July 2012 decided to keep the tender period as three weeks and to keep the CVC informed in writing of the reasons. Audit observed that in six tenders valuing ₹ 1149.57 crore, the tender period varied from two weeks to four weeks. Out of these six cases, in three cases valuing ₹ 490.28 crore, the tender period was less than three weeks in clear violation of CVC guidelines as well as the EC decision. Further, there were no records to indicate whether the CVC was informed in writing about the deviation and requisite approval was obtained in these cases.

5.1.2.2 Inefficiencies in port operations

(a) Non comparison of rates offered at different ports

As per the procedures prescribed during export of wheat, CPSUs were to invite tenders from foreign buyers and submit the same to the Empowered Committee for their approval. The Empowered Committee was authorised to approve the tender. On a review of the details of tenders received, it was seen that in respect of three cases[1], the Empowered Committee had compared offered rates of ports with the rates received in other ports. As per instructions of the Committee, the CPSUs negotiated with H1 bidder who agreed to match the higher rates in other ports. However, in nine cases, the Empowered Committee neither made any such comparison nor made any efforts for maximizing the rate even when the offered price was lower as compared to other ports on the same date. The non comparison of rates resulted in short realisation of ₹ 13.75 crore.

In respect of concerns raised by the Ministry of Commerce in the CCEA's Note with regard to the implication of export price on calculation of loss, the Ministry of Consumer Affairs, Food and Public Distribution (MOCAF&PD) had assured that views of FCI would be given emphasis during the Empowered Committee meetings. However, it was observed that though FCI and Department of Food were the members of Empowered Committee, the difference in rates at different ports was not raised in the Empowered Committee meetings.

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[1] ***Three tender floated by MMTC were (a) Kakinada Port, Tender for 75,000 MT, (b) Retender of 1,00,000 MT from Pipavav port and (c) Re-tender of 40,000 MT from Mormugao port.***

(b) Higher rate charged by Clearing and Handling Agents (CHAs) at private ports

M/s Rishi Shipping (CHA appointed for Kandla Port by PEC) charged for their services an all inclusive rates of ₹ 530 per MT for vessels of 40,000 MT carrying capacity and ₹ 505 per MT for smaller vessels. These rates were inclusive of all applicable taxes, rates and duties. In comparison Consortium of Mundra Port & SEZ Limited (MPSEZ) and GujratPipavav Port Limited charged for their services at Mundra and Pipavav Port an all inclusive consolidated rate of ₹ 590 per MT including Service Tax *plus*Wharfage of ₹ 40 per MT and Service Tax on Wharfage.

Though all CHA agents were doing similar job, the CHA at the Mundra and Pipavav private ports charged higher rates for their services compared to those charged by M/s Rishi Shipping. In addition to handling charges at higher rates, CHAs at the two private ports also charged wharfage at the rate of ₹ 40 per MT *plus* Service Tax. There was no justification on record for charging higher rates.

The higher rates charged by the CHAs at private ports of Mundra and Pipavav in comparison to CHA at Kandla resulted in excess expenditure of ₹ 18.15 crore in the export of wheat during 2012-13 and 2013-14.

Audit further observed that Wharfage was payable only if goods were removed after expiry of free time[1]. Thus applying wharfage on all transactions irrespective of applicability resulted in undue benefit of ₹ 8.28 crore (₹ 44.94[2] x 1729156 MT + ₹ 40 x 127452 MT) to the CHAs of Pipavav and Mundra port.

The Management stated that FCI has no role in questioning rates charged by CHAs of CPSU and that whatever port charges were charged, FCI has to allow and rates were bound to vary in different locations.

The reply of the Management is not acceptable because in view of the CCEA Note dated 25 June 2012, FCI's views were to be considered while deciding pricing. Also, as the increase in expenditure results in consequent additional subsidy burden, FCI should have raised this issue in the Empowered Committee Meetings to safeguard its interests.

(c) Avoidable expenditure of ₹ 20.67 crore due to bulking of stock before finalization of tenders and payment to H&T for its transport back to various depots by FCI

On review of records relating to dispatch of wheat after completion of Phase I and Phase II of Export, it was observed that avoidable expenditure was incurred due to non-achievement/non completion of export obligation by the CPSUs. Thus, balance wheat stock which could not be exported during Phase I and Phase II was transported to different depots in Gujarat by incurring an expenditure of ₹ 20.67 crore.

In respect of stock accumulated at Mundra port during Phase II, Management stated that it was due to non approval of tenders and cancellation of pilot project of clean cargo and considering the qualitative risk of stock, the competent authority directed to move the

[1] ***Time allowed to remove the goods from the Authority's property.***
[2] ***Wharfage₹40 plus service tax at the rate of 12.36 per cent***

said stock to various destinations and the expenditure of H&T movement was borne by FCI.

The Management reply is not acceptable as non-achievement/non completion of export obligation by the CPSUs resulted in avoidable expenditure of ₹ 20.67 crore and FCI suffered the loss.

5.1.2.3 Weakness in Monitoring

(a) Excess payment of ₹6.22 crore on account of application of wrong clause

FCI appointed M/s Adani Port & SEZ Ltd at Mundra Port and M/s GPPL at Pipavav port as H&T contractor for unloading from wagons, loading into trucks, transportation from Railway goodshed/siding to godowns, unloading from trucks and Stacking in godowns. As per tender the relevant clauses for payment of handling and transportation of wheat is brought out as below:-

Clause 6 "for carrying the food-grain bags by means of trucks from the Railway siding to the godowns exceeding 200 meters situated in same premises or vice-versa which is inclusive of the operation of loading into and unloading from trucks".

Clause No.7 or Clause No 2 "for transporting the food grain bags by trucks from one godown to another godown /Railhead or any other place or vice versa" alongwith Clause 1(b) "for unloading food grains bags for wagons/trucks for any other transport vehicles and directly loading on trucks".

As FCI godown and their railway sidings were in same premises, the payment to CHAs should have been regulated by clause 6 of the tender. However, it was noticed that FCI applied Clause No.7 or 2 in place of clause No.6 along with Clause *No* 1(b). Thus, on the quantity of 9.37 LMT transported**,** FCI made an excess payment of ₹ 6.22 crore (937000 MT * ₹ 66.38) due to application of wrong clause**.**

The Management replied that godown having rail siding and godown served from a railhead/non railway siding godown were different and that the Port premises and the godown premises should not be interchanged.

Reply of the management was not tenable because Regional Office Ahmedabad and Zonal Office (Mumbai) had given recommendations (December 2012) for payment to be made under Clause 6. Further, in absence of any clarification of the word 'same premises' in the MTF, FCI should have made the payment of export operations under clause 6 to protect its financial interests

(b) Claims receivable from PSUs in respect of Phase I and II of exports

On review of the pending claims, it was seen that as per FCI books an amount of ₹ 17.19 crore was pending with STC, PEC and MMTC. Further examination of the pending claims revealed that:

STC remitted an amount of ₹10.92 crore on 12 September 2014 but did not provide the detailed break up of claims. As a result, the claims were still shown as pending claims in the accounts of the Corporation, even though more than 10 months had passed from the date of receipt of money. Though FCI has reminded STC about providing break up for the claims to be adjusted, the same was not provided by STC till the date of audit (July 2015) and the claims remained unsettled.

It was observed that CPSUs had not paid full sales proceeds to FCI according to guidelines/procedures and an amount of ₹ 9.32 crore was outstanding as on 31 March 2015 (₹ 7.99 crore from STC and ₹ 1.33 crore from PEC), even after a lapse of more than one year and reminders by FCI.

The interest amounting to ₹ 2.08 crore as on 31 March 2015 was recoverable from CPSUs.

The Management stated that interest would be calculated and claimed on the delayed remittance of sale proceeds of gunny after receipt of bifurcation of amount of ₹ 10.92 crore remitted by STC. FCI needs to actively pursue for realisation of sale proceeds and interest thereon.

(c) Non receipt of Service tax refund of ₹20.09 crore from the CPSUs

Government of India, Ministry of Finance, Department of Expenditure vide Notification No. 41/2012-Service Tax dated 29 June 2012, granted rebate of service tax on the taxable services received by an exporter of goods and used for export of goods. The proviso to the notification further stated that the rebate shall be granted by way of refund of service tax paid and the claim for rebate of service tax paid on the specified services used for export of goods shall be filed within one year from the date of export of the said goods. The rebate on service tax was to be claimed as refund by the exporters (CPSUs).

It was observed that apart from an intimation from STC of receipt of Service tax of ₹ 0.45 crore on other charges, no refund of Service Tax was received on the export of wheat and the total service tax of ₹ 20.09 crore as on 31 March 2015 was due. Further, though the total service tax refund receivable in respect of Phase I&II from the CPSUs was ₹ 20.09 crore, FCI had claimed only ₹ 5.71 crore from the CPSU i.e., only refund claims relating to services other than that of CHAs. FCI claimed ₹ 15.95 crore (STC ₹ 9.52 crore+ PEC ₹ 6.43 crore) in respect of service tax refund relating to CHAs only in July 2015 after being pointed out by audit.

It was also observed that FCI Regional Office, Ahmedabad addressed letters to PSUs only on 16 December 2013 i.e, after a delay of more than one year claiming the refund of Service Tax from the Service Tax Department. STC assured (9 July 2014) that they will file the refund claim with Service Tax Department and remit the amount to FCI as soon as the same is received. Further, none of the other CPSUs had claimed refund of Service Tax even after completion of Phase II exports. Thus non maintenance of regular follow up resulted in delay in lodging the claim. The Management stated that claims are being pursued but the same were not yet received from the CPSUs.

(d) Withholding of export sales realisation ₹60.99 crore by MMTC

In respect of the last shipment (7 May 2014) from Pipavav port, MMTC realised ₹ 80.11 crore from exports and remitted only ₹ 13.40 crore to FCI after deducting their expenses and commission amounting to ₹ 5.72 crore, it withheld ₹ 60.99 crore of the realised amount as adjustment in respect of very old dues receivable from FCI pertaining to 1991 (₹ 24.99 crore as principal *plus* interest amounting to ₹ 36 crore). Even after more than one year, MMTC has neither remitted the withheld amount nor paid the interest of ₹ 5.72 crore claimed by FCI on the delayed payment as on 31 March 2015 inspite of various correspondence by FCI. In absence of any agreement/MOU between FCI and MMTC with regard to the current export transaction, the chances of recovery of the above said amount was remote.

(e) Short receipt of despatch money

During loading on the ship, if the charterer completes the load/discharge operations before the time frame indicated, it can claim "Despatch" from the ship owners at pre-agreed rate and if it fails then demurrage will be levied by the owner on the charterers. As per FCI HQ guidelines (24 September 2012) despatch money earned had to be passed on to FCI within one working day on receipt failing which CPSUs were liable to pay interest for delayed period at FCI's Cash Credit rate.

The despatch money of ₹ 4.13 crore was earned and demurrages of ₹10.54 lakh were incurred during the export operation. In case of despatch money and demurrages, it was observed that:

(i) No information/ details were available relating to13 vessels during Phase-I and of one vessel during Phase-II in respect of exports from Mundra port. In absence of information it could not be ascertained whether despatch money was earned or demurrage was incurred.

(ii) FCI HQ guidelines dated 24 September 2012, clearly stated that private ports shall be liable to incur the demurrage and FCI will not be responsible for any demurrage charges; despatch earned, if any, will be passed on to FCI. Audit observed that for Mundra, FCI had incurred ₹ 10.54 lakh as demurrage charges. This deduction of ₹ 10.54 lakh towards demurrage is not in order and FCI ought to have demanded for the recovery of the same. On being pointed out by audit, FCI lodged a claim for ₹ 10.54 lakh (July 2015).

(iii) As per the 22nd Sub Committee meeting (18 December 2012), total despatch money had to be passed on to FCI except in case of Mundra port wherein it was to be shared on 50:50 basis. The management stated that infrastructure and operations at private ports could not be compared with Government ports. However, no specific reasons were given by the Management for giving differential treatment to Mundra Port.

Efforts need to be made by FCI to expeditiously recover the despatch money as well as demurrage from port authority.

(f) Loss of ₹4.46 crore due to cancellation of shipment

(i) A Pilot Project for cleaning/upgradation of wheat for exports at Mundra was approved in the 352nd Board meeting held on 20 December 2012 of FCI. STC was entrusted the export of 50,000 MT of clean cargo from Mundra port at the rate of USD 323.05 with shipment period from 21 January 2013 to 5 March 2013. For carrying out this work, STC appointed its CHA, M/s Adani Port & SEZ Ltd. (APSEZ) as the cleaning agent. FCI supplied 26,092.710 MT of wheat to STC for this purpose. As the contracted physical parameters in respect of first shipment of 25,000 MT could not be achieved, the buyer was not pursued for opening of the Letter of Credit (LC) till the expiry of the shipping period to avoid claim for damages by the buyer.

The LC was opened by the buyer, four months after the stipulated shipment period, with last date of shipment as 15 July 2013. APSEZ failed to clean the cargo within the stipulated period and the request made to extend the LC was not accepted by the buyer resulting in cancellation of the tender. Though APSEZ (CHA of STC) could not complete the cleaning of wheat upto the specified level, no liability was fixed on anyone. STC intimated the Committee (4 October 2013) that the cleaning project could not be achieved and assured the Committee that there would not be liability from the buyer either on FCI or STC and written confirmation in this regard is expected from the buyer shortly. However, the written confirmation was not obtained and the matter was also not pursued further even by FCI. Since STC could not achieve the required export specification, 20,806 MT of wheat was exported at a lower rate of USD 300.40/MT. Thus, due to cancellation of order of clean wheat an amount of ₹ 2.83[1] crore was foregone.

Audit observed that the cleaning started only after opening of LC though the stocks were inducted by FCI well in time. The delay resulted in non-completion of the cleaning of wheat as assured by STC before the date of shipment period resulting in cancellation of order and loss to FCI to the tune of ₹ 2.83 crore.

(ii) A quantity of 4295.788 MTs of cleaned stock was despatched to various centres of FCI by rail in Gujarat Region for public distribution system and remaining quantity of 990.922 MTs of cleaned cargo remained with STC, which was reported after a gap of nine months resulting in discarding the cargo as it had become unfit for human consumption. FCI submitted a claim of ₹ 1.63 crore on STC at Open Market Sale Scheme rate vide its letter dated 21 August 2014 and further reminded on 02 February 2015. However, there was no response from STC in this regard.

Thus, the total loss to FCI works out to ₹ 4.46 crore (₹ 1.63 crore *plus* ₹ 2.83 crore) against which FCI had lodged only a claim of ₹ 1.63 crore with STC instead of taking up the matter with the Empowered Committee to protect its interest.

(g) Reduction in scope of work of CHA without reduction in rate leading to over payment of ₹5.01 crore

PEC, STC and MMTC were appointed Clearing and Handling Agents (CHAs), at Kandla Port (Rishi Shipping), Mundra Port (Consortium of Mundra Port & SEZ Ltd (MPSEZ)) and Pipavav Port (Gujarat Pipavav Port Ltd), respectively.

As per FCI Hqrs instructions, FCI had to provide wheat stocks during Phase I to CPSUs at the port town godowns of FCI at identified ports for further shipment and during Phase II, at the designated CPSU godowns at the Port through FCI's Handling and Transport

[1] USD323.05-300.40 = USD 22.65 * ₹60* 20806.

Contractor. However this arrangement was not applicable in case of Pipavav port where the entire operation beginning with unloading of rakes was to be undertaken by MMTC.

During Phase II (2013-14), FCI exported 7.50 LMT through Mundra and Kandla Ports and incurred ₹ 11.66 crore towards handling & transportation charges for handing over the stocks to CPSUs/CHAs.

Audit observed that though there was reduction in scope of CHA's job during phase II (as lifting from FCI godown and the transportation upto CHA's godown which was in the scope of the CHA during first phase was carried out by FCI in Phase II), the same rates were continued by PEC and STC for the CHAs at Kandla and Mundra respectively without calling for fresh tenders.

Thus, non-reduction in rate on change in scope of work of CHA resulted in undue benefit to the CHAs and additional expenditure to the tune of ₹ 5.01 crore (transportation expenditure borne by FCI ₹ 2.07 crore and ₹ 2.94 crore at Kandla and Mundra port respectively).

(h) Payment of ₹ 8.01 crore to CHAs for work, included in their scope but actually carried out by FCI

As per agreement entered into by CPSUs with CHA for Mundra and Pipavav port, the CHAs were responsible for lifting wheat stock from FCI port godowns to carry out operation for loading wheat by arranging their own labour.

For arranging stocks at FCI's godowns at the Ports, FCI appointed H&T contractor, Khaja Travel Service/Jay Enterprises (w.e.f 16 July 2013) at Kandla Port, M/s. MPSEZ at Mundra port and M/s Pipavav at Pipavav port. As per Item 1(b) of Price Bid Clause XIX for unloading food grain bags from wagons/trucks or any other transport vehicles and directly loading on trucks or any other vehicles etc., a separate rate of ₹ 24 per MT (plus ASOR quoted and agreed) was applicable.

As decided in the Sub Committee meeting (10 October 2012), stocks were issued to CPSU directly from Rail Head instead of from FCI godown through H&T contractors during Phase I export of wheat. Audit observed that though FCI carried out the handling operation through H&T Contractors which was responsibility of CHA appointed by CPSUs but full charges were reimbursed/paid to the CHAs resulting in additional expenditure to the tune of ₹ 8.01 crore and undue benefit to the CHAs,

It was further noticed that as per 39th Sub Committee meeting (12 July 2013), CPSUs were required to provide a certificate that all activities as indicated in the tender were carried out by the CHA at the port, to ascertain that payment was made against the actual operations carried out by them. However, no such certificate was furnished by the CPSUs whereas FCI made full payment of ₹ 8.01 crore.

The Management stated that as the lifting of food grains at the railhead was not a CHA job they cannot be compelled to lift the food grains from rail head and that there was no deviation in policy framework conveyed by FCI HQ duly endorsed by the Sub Committee.

The reply of the Management is not tenable because as per procedure, the CPSUs were to take the stock from FCI godowns through their CHAs. Hence, in case of direct delivery at railhead, the CPSUs should take delivery of the same through its CHAs. The export policy framework conveyed by FCI HQ neither mentions about changes to be made in agreement with CHA to accommodate the above scope of work nor does it include the decision of Sub Committee for delivery of food grains.

(i) Non deduction of TDS of ₹10.93 crore on commission paid to CPSUs

As per Section 194H of the Income Tax Act, 1961, the consignor/principal would have to deposit the tax deductible (at the rate of 10 *per cent*) on the amount of commission income to the credit of the Central Government, within the prescribed time. CPSUs remit the export sales proceeds to FCI after deducting port expenses and their commission. As retention of commission by the consignee/agent amounts to constructive payment of the same to him by the consignor/principal, deduction of tax at source is required to be made from the amount of commission. However, no TDS was paid. Subsequently, in Section 194H of the Income Tax Act, the word "Trade Commission" was replaced with "Trade Margin" and FCI contended that TDS is not applicable on Trade Margin.

Audit observed that, based on an opinion received from a Chartered Accountants firm that the relation between FCI and CPSUs is that of Seller and buyer (and not that of Principal and Agent), the credit sales invoice of export of wheat was prepared by the Corporation and issued to CPSUs wherein FCI had not deducted TDS amounting to ₹ 10.93 crore from the amount paid to CPSUs as their commission.

In this regard it was observed that the relation between FCI and STC/PEC/MMTC was that of Principal and Agent and not that of seller and buyer due to the following reasons:

(i) The CPSUs were appointed as exporting agencies to facilitate export operation i.e., act as agents to bring the seller and prospective buyer together for which there was to be no profit making by PSUs but they would be paid trading commission.

(ii) FCI had not entered into a 'Sale Agreement' (as per the Sales of Goods Act) with CPSUs and has booked the sales under Export Sales and not indigenous sales.

(iii) The stock was to be issued through CPSUs and not sold to CPSU and the CPSUs were allowed handling loss of 0.25 *per cent*. If the stock had been sold to CPSUs the question of handling loss on stock issued to CPSUs did not arise.

(iv) The sales invoice was not raised when the stock was issued to the CPSUs but only on arrival of vessel in consultation with CPSU on the basis of capacity of the vessel and shipping contract.

(v) Un-exported stock lying with CPSUs were directly taken to FCI Stock and not shown as sales return from CPSUs.

As the relation between FCI and CPSUs (STC, PEC & MMTC) was that of Principal and Agent, FCI was liable to deduct TDS from CPSUs and remit the same to the accounts of Central Government.

The Management replied that no TDS was applicable on trade margin. The Management reply was not acceptable as the relation between FCI and CPSUs clearly was that of Principal and Agent and hence FCI was liable to deduct TDS on commission paid and remit it to the Government. Thus, non deduction of TDS amounting to ₹ 10.93 crore on the Trade Commission paid to CPSUs resulted in loss to the Government.

Conclusions

A number of deficiencies and irregularities were noticed in the export of wheat by FCI. Separate Agreement/MOUs were not entered between CPSUs and FCI for export operations. Though FCI and Department of Food were members of the empowered Committee, to invite/evaluate the tender from foreign buyers FCI did not protect its interest by raising the pertinent issues in the meeting leading to extra expenditure. Moreover, higher rates were charged by the CHAs at private ports of Mundra and Pipavav when compared to CHA at Kandla port. Further, undue favours were extended to the private parties/CHAs resulting in loss to FCI. Tender period varied from two weeks to four weeks in violation of CVC guidelines. There were delays in claiming service tax refund from CPSUs and chances of recovery of proceeds of export sales withheld by MMTC were remote in absence of any agreement/ MOU between the FCI & MMTC.

The matter was reported to the Ministry in November 2015; their reply was awaited (March 2016).

5.2 IT audit on implementation of Financial Accounting Package

Food Corporation of India (FCI) rolled out FAP without the pilot locations expressing their satisfaction and full payment of ₹ 12.53 crore was released to TCS. The Corporation incurred unfruitful expenditure of ₹ 4.92 crore on networking and hardware. Moreover, FCI sanctioned ₹ 200.78 crore to implement an altogether different software instead of using the FAP's inventory module in Oracle. Financial Statements could not be generated through FAP due to deficient customisation and these were being prepared manually. Modules of FAP lacked proper validation, security provisions and processing controls leading to incorrect output, unreliable data and excess payments.

5.2.1 Introduction

Food Corporation of India (FCI) functions through five Zonal Offices (ZOs), 25 Regional Offices (ROs) and 169 District Offices (DOs). In the meeting held on 26 July 2005, the Board of Directors of FCI approved implementation of Financial Accounting Package (FAP) to computerise the financial accounting of FCI. The Finance division of FCI implemented FAP {Oracle Enterprise Resource Planning (ERP)} in collaboration with Tata Consultancy Services (TCS). FCI entered into contract (November 2006) with TCS for implementation and customization of FAP. The contract also covered four years of maintenance support at a cost of ₹ 3.01 crore. The main modules of Financial Accounting Package were (a) Financial Accounting (b) Cash Management (c) Budgeting and Costing (d) Payroll and (e) Contributory Provident Fund (CPF) Trust Accounting.

FCI released payment of ₹ 12.53 crore (cost of software and other revenue expenditure) to TCS against the above contract till December 2015. The targeted date of implementation of the project was one year from the date of award of tender i.e., 24 November 2006. FCI continued with simultaneous manual book-keeping along with FAP till 31March 2013.

5.2.2 Audit Findings

5.2.2.1 Project management and implementation of FAP

(a) Rollout of the project without receiving completion certificates from pilot sites

Implementation of the project was to be carried out in two phases, i.e., Phase I and Phase II. Phase I implementation was to be at pilot sites at FCI Head Office, five Zonal Offices, five Regional Offices and five District Offices. Subsequently, the roll out was to be carried out as Phase II for rest of the sites. As per the relevant clause in the tender, the date of completion certificate from pilot locations was to be considered as the Go live/completion of the project.

Audit observed that even though certificates for completion of FAP were not given by any of the pilot locations the roll out of FAP (Payroll Module) was started w.e.f. 01 October 2010 and the "Go live" certificate (w.e.f. 01 December 2013) for FAP was issued by the Management to TCS in February 2014. .

Thus, in spite of non-fulfilment of contractual condition of completion certificate from the pilot locations, FCI/TCS rolled out the package and full payment of ₹ 12.53 crore was made to TCS.

The Management accepted that there was no formal closure from the pilot locations and stated (February 2016) that keeping in view the progress made and also FAP being ready to give desired results it was decided to roll out the FAP.

The reply of the Management is not tenable as full payment was made to TCS without the pilot locations expressing their satisfaction whether FAP fulfilled their user requirements.

(b) Unfruitful expenditure of ₹4.92 crore on networking and hardware

(i) As per the minutes of the meeting held on 07 January 2005, NIC was to provide Virtual Private Network (VPN) connectivity at a cost of ₹4 crore, through Bharat Sanchar Nigam Limited (BSNL)[1] for the project up to District level. In compliance with the NIC recommendations, FCI released a payment of ₹ 4.02 crore to BSNL (March 2005) towards bandwidth usage charges and hardware items.

Audit observed that VPN connectivity was not provided to district offices which were the prime end users of the FAP project. Thus, the district offices were forced to depend upon other sources like data card services and individual broadband services in an unstructured

[1] ***A VPN is a network technology that creates a secure network connection over a public network such as the Internet or a private network owned by a service provider***

and unmanaged manner leading to delayed communication between the district offices and the central server. This rendered the expenditure of ₹ 4.02 crore unfruitful.

The Management stated (February 2016) that increase in traffic usage of internet in IISFM, FAP and other application had resulted in slow connectivity. Therefore, as per advice of NIC and after approval of Chairman and Managing Director of FCI, BSNL was requested to discontinue the VPN.

The reply is not tenable as the Management did not consider up-gradation of the VPN connectivity to cater to the increased internet traffic; rather it chose to discontinue VPN connectivity which resulted in transmission in an unstructured and unsecured manner[1] between district offices/depots and FCI Hqrs.

(ii) Clause 7.3 of the tender stipulated that "TCS is responsible for the complete delivery, implementation and rollout of all application software including database within 12 months from the date of award of contract". Thus, the project was to be completed by December 2007. Audit observed that FCI management could not provide the requisite hardware and server on time to TCS which delayed the implementation of project. Further, implementation of FAP also got delayed due to utilisation of workforce to clear the arrear of accounts (for two to three years), lack of dedicated manpower, and delay at pilot locations. Finally, Completion certificate was issued (February 2014) to TCS effective from 01 December 2013. Thus, there was inordinate delay of six years in implementation of project. Due to this delay the servers procured (2008) at cost of ₹ 89.90 lakh (one production server and development server) got outdated which needed to be replaced resulting in sub-optimal utilisation of the servers.

The Management stated (February 2016) that the servers procured for FAP were used for different activities during different phases of FAP implementation and never remained idle or unutilised and that the servers had outlived their life and needed to be replaced.

The Management reply does not address the fact that the servers which were procured in 2008 for FAP could not be put to their intended use due to six year delay, by which time the servers had become outdated.

5.2.2.2 Critical functional requirements not incorporated in FAP

(a) Non-integration of stock accounting with Financial Accounting Package

Integrated Information System for Food Grains Management (IISFM) was approved at a total cost of ₹ 97.66 crore to install an online MIS in FCI by National Informatics Centre (NIC) which would give the stock position in any Food Storage Depot at any given point of time. The stock data entry in IISFM was based on details of transactions[2] of food grains in depots. However, FCI kept IISFM in abeyance (August 2010) due to incomplete implementation, absence of connectivity, unreliable data and various flaws in system

[1] ***The LAN is without information outlets, Jack Panel, equipment racks etc. The switches are unmanaged and are of various brands and most of the FCI District offices have individual broadband connections.***

[2] ***Stock transactions such as truck wise receipt, issue, transit losses. storage losses, inter variety changes, loss due to down gradation etc.***

design resulting in unfruitful expenditure of ₹ 97.66 crore on implementation of IISFM. Non-achievement of the intended objectives of the project was highlighted in the CAG Audit Report No. 3 of 2011-12.

The Board of Directors of FCI decided (23 September 2005) that FAP was to be provided with adequate interface with the existing IISFM. The data flow was to be with respect to stock transactions such as receipts, issues, transit losses, storage losses, inter variety changes, losses due to down gradation etc., so that such data would not be required to be re-entered manually. Moreover, integration of IISFM with FAP for inventory management was also envisaged in the contract with TCS.

However, it was observed that no provision was made by TCS for interface of FAP with stock accounting in violation of terms and conditions of contract. As a result the entries were made manually in FAP from the monthly stock accounts statement sent by various depot offices.

The Management in their reply (February 2016) offered no comments to this observation.

(b) It was further observed in audit that TCS had proposed that Oracle Inventory Module of FAP can take care of the inventory transactions at depot level. However, Board of Directors' of FCI sanctioned (08 April 2015) an amount of ₹ 200.78 crore on an altogether different project called 'Depot online' overlooking the possibilities of implementing the already existing Oracle Inventory Module in FAP. Thus, instead of making use of the already available Oracle Inventory Module in FAP, which was implemented by the Finance Division of FCI, the Management made a decision to procure hardware and software, at a significant cost, for implementing an altogether different project (Depot Online). This indicates lack of co-ordination between the IT and Finance Divisions of FCI resulting in non-optimization of organizational resources and substantial additional expenditure.

The Management stated (February 2016) that as far as possibility of using existing Oracle Inventory was concerned, being an open tender, M/s Oracle was also free to participate in the selection process. However, no such response was received from them. As far as the additional cost of purchase of hardware for Depot Online Project was concerned, most of it was being supplied to the depots where such hardware was not available. Hence, additional cost would have been incurred even in case the solution of Oracle was implemented.

The reply of the Management is not tenable as it did not consider making use of the already available Oracle Inventory Module in FAP proposed by the TCS and instead committed itself to an additional expenditure of ₹ 200.78 crore for the Depot Online project. Further, as regards cost of hardware, FCI without considering the utilisation of hardware which was supplied in the depots under IISFM project, sanctioned purchase of additional hardware for similar use.

(c) Deficient customisation for generation of Financial Statements in FAP

ERP application developed by TCS at a total cost of ₹ 21.84 crore (including hardware and software) was not generating the financial statements as per requirement of the

Companies Act, 2013 thereby defeating one of the main objectives of implementing Financial Accounting Package. The Annual Financial Statements were in fact being prepared manually by FCI. Further, in built function for generating Bank Reconciliation Statement was also not being used by FCI.

The Management accepted and stated (February 2016) that the work to generate the above reports through FAP was under testing. The Management further stated that field offices were directed to prepare Bank Reconciliation Statement through FAP.

Thus, even after five years[1] of implementation and expenditure of ₹ 21.84 crore the system implemented in FCI fell short of the overall intended objectives.

5.2.2.3 Programme Change Control - Non authorisation over the escrow account and source code of the FAP project

Clause 7.10 of the tender document *inter alia* stipulated that the software source code (in a compact disc) shall be kept in a locker opened in the Bank and paid for by the Contractor. FCI shall have unilateral power to open the locker and necessary authorisation has to be provided to FCI from concerned bank by the Contractor so that FCI operations do not suffer.

It was observed that FCI had no authorisation over the escrow account and source code of the FAP project. This made FCI completely dependent on TCS for any change management and also rendered continuity of FAP operation vulnerable in case of dispute/disagreement with the vendor.

The Management accepted and stated (November 2016) that TCS was requested to provide the source code of the application.

5.2.2.4 Non-Evaluation of FAP by External Agency

One of the essential documents required for development of any IT application i.e. System Requirement Specification document was also not prepared by the vendor before designing and implementation of the project. Only a document in the shape of gap analysis carried out by implementing agency (TCS) was prepared. As a result of non-maintenance of basic documents like SRS, the audit and evaluation of FAP by external agency in terms of the MOU for the year 2012-13 between FCI and Ministry of Consumer Affairs, was declined by the external agency viz., Standard Testing and Quality Certification (STQC) Directorate (an attached office of the Department of Electronics and Information Technology, Government of India, providing quality assurance services in the area of electronics and IT). The reason cited for refusal by the agency was absence of the minimum documentation required for SRS along with the user manual clearly mentioning the software requirement, work flows, validation rules and access to the application along with the sample data.

[1] ***Payroll module of FAP was started in October 2010***

Thus, in the absence of SRS document and user manuals and associated documentation of FAP the evaluation of the project by an independent third party was never carried out. Hence, the security, stability and quality assurance of FAP remained uncertified.

The Management confirmed (February 2016) that STQC refused on the ground that evaluation will not be possible without SRS documentation. Further, it stated that a tender for system audit of FAP was floated and awarded to M/s JKNP & Associates on 15 December 2015 and the system audit was under progress.

The reply is indicative of the fact that TCS did not fulfil its contractual obligation regarding system documentation leading to the system remaining unaudited. Evidently, absence of system documentation hampered the certification of the system.

5.2.2.5 Inadequate Disaster recovery and Business Continuity Plan leading to disruption and data loss

Disaster Recovery and Business continuity includes regular backups, storage of backups and periodic recovery simulation exercise to ensure that backups taken are recoverable in case of a disaster.

The backup of the FAP data was taken on Storage Area Network (SAN-2) by the Data Base Administrator and the same was copied in tape drive by NIC. The backup of the FAP server was taken centrally and the tape drives were kept at NIC, Hyderabad. However, it was observed that during the month of June 2013, there was a breakdown of the only existing server for 22 days (08 June 2013 to 29 June 2013) and transaction data was lost. As the backup could not be restored by FCI, the lost data had to be restored manually.

Audit analysis revealed that neither a Disaster Recovery Server was installed nor any recovery exercise was simulated.

The Management accepted (February 2016) the failure of backup restoration and stated that the requisite action for installation of new servers for Data Centre and Disaster Recovery site is in progress and would be completed by July 2016.

Thus, storage of data on tape drives in absence of Disaster Recovery Server puts the entire database at risk in the event of major breakdown. This is an unacceptable risk to FAP which processes transactions worth ₹ 1,36,561.13 crore[1] per year.

5.2.2.6 Inadequate security provisions in FAP

(a) User can simultaneously log in to FAP through more than one computer (LAN or standalone). This deficiency made the system vulnerable to unauthorized access.

The Management stated (February 2016) that the restrictions on multiple sessions are being evaluated. The vulnerabilities thus remain unaddressed.

[1] Sale and Purchase transactions of FCI for the year 2014-15.

(b) No log files depicting login details of users such as login date/time, IP address etc., were maintained in the system. This detective control weakness compounded the already deficient preventive controls (as in 2.6.1) and is a major security vulnerability of the accounting system. It was also observed that the outsourced personnel staff at District Office FCI Tadepalligudem was engaged for entering the transactions in FAP leading to security risk and violation of principles of segregation of duties.

The Management stated (February 2016) that the record of history of transactions is available in the system. Further, with regard to outsourcing of staff it stated that the field offices have been advised to strictly follow the FCI Hqrs instructions of not-sharing the user IDs.

The Management reply with reference to login details of users is not tenable as it did not address the deficiencies in the log file details of users, rather it refers only to the record of history of the transactions which is not relevant in this case.

(c) There were instances where all the staff of Accounts section were found using the same user ID and password and thereby compromising the security of the system and also making it difficult to fix responsibility in case of any misuse**.** Audit observed that at RO Raipur, one user ID was created for three Assistant posts, and one super user ID was created for three managers post. This indicated that the ID was being shared with other users and super users. In Gujarat Region, the number of user IDs exceeded the number of employees working in the accounts section. Existence of excess User IDs in comparison to number of users indicates that the User IDs created for the employees who were transferred/ retired were still active and were not disabled. The Management stated (February 2016) that field offices were advised to strictly follow the Hqrs. Instruction of not sharing the User IDs.

The Management reply is not tenable as apart from issuing instruction it has not initiated any concrete measure to stop sharing of User IDs.

5.2.3 Deficiencies in different modules of FAP

Two core components of FAP are Financial Accounting Module and Payroll Module. Audit examined the adequacy of programming logic and mapping of business rules by test data method and running queries at the backend[1]. The major observations are given below:-

5.2.3.1 Financial Accounting Module

FAP has a Financial Accounting Module which is central to the functioning of the application. The inputs to this module include entries related to financial transactions of food grains. The output is in the form of General Ledger, Purchase day book, Sales day book, Trial Balance etc. Deficiencies noticed in audit are as detailed below:

[1] Backend is a Computer program (such as server software) that remains in the background, or resides on a server located in a back room

(i) The logic to calculate depreciation was incorrectly configured in the system in violation of the Companies Act 2013 whereby the application calculated depreciation on the full useful life of the asset (from 01 April 2014) rather than on remaining useful life of the asset which were purchased prior to April 2014. Audit observed that the amount of difference between the old method (Written Down Value) and new method (depreciation on full useful life of asset from 01 April 2014) of depreciation calculation was ₹ 33.99 crore. Incidentally, acquisition date of all the assets acquired since inception and before April 2014 was depicted as April 2013 in the system. The quantification of correct depreciation is hampered due to absence of historical acquisition data of assets in the system.

The Management stated (February 2016) that the issue relate, to accounting policy and availability of historical data in manual system.

The Management, thus, needs to enter correct acquisition dates of FCI's assets in its FAP data base to correctly calculate depreciation to provide an accurate picture.

(ii) The cash credit limit (CC) in the system was found to have no correlation with the approved cash credit limit of respective districts. It was observed that system accepted amounts in excess of the actual cash credit limit of the districts. This deficiency is not only fraught with the risk of excess payment getting processed through the system but would also result in cases of excess payments going unnoticed at management level in FCI HQ.

The Management stated (February 2016) that the CC limits are daily notional limits for the banks to clear the transactions during that day and no control can be exercised over a bank for clearing the amount up to CC limits through FAP.

The Management reply is not tenable as it did not address the issue of absence of inbuilt control in the system to restrict amount of payment to the CC limit of respective districts which poses risk of excess payment getting processed through the system.

(iii) The application lacked a provision to validate the issue quantity of food grains against the respective Release Order (RO) quantity. This, apart from creating a risk of processing payment for unauthorized issue of food grains also disables any monitoring of field level lifting of food grains against their respective authorizations. Moreover, while processing sales transactions, the invoices were being generated with neither referencing them to the scheme[1] under which the stocks were issued, nor linking with the stock levels in the respective depot. Moreover, the rates applicable for each scheme were not found linked in FAP. This created risk of generation of incorrect vouchers and also made such data of limited use for MIS and decision making by the management.

(iv) The system did not have the facility to calculate the amount payable/receivable from the quantity of food grain received/issued by linking it to the per quintal rate of that particular food grain. The net amount payable/receivable had thus to be

[1] ***Various schemes like Below Poverty Line, Above Poverty line, Open market sale etc.***

calculated manually and then fed in to the system making it prone to human error and creating a risk of incorrect invoice generation and payment thereon.

The Management stated (February 2016) that separate Release Order Module, Depot Online Module and Procurement Module are being implemented by IT Division to address the above issue (iii and iv). The deficiency, thus, remained unaddressed.

(v) Mandatory functions like calculation of Service tax rates, VAT rates, Standard rates etc. were not configured in the application and they continued to be calculated manually making them prone to human errors.

The Management stated (February 2016) that no separate accounting for the service tax is made in the books of accounts as the rates differ from State to State. Hence, the amount is being calculated manually by field offices.

The reply of the Management is not tenable as Service tax, VAT, Standard rates etc., were mandatory functions which need to be auto configured in the application to prevent manual error.

(vi) The application did not have a provision to reconcile different payments made to more than one party, through Real time Gross Settlement (RTGS), by a single cheque. As such, reconciliation of such payments required manual interventions resulting in undue delays in procedural work besides making it prone to human error.

The Management in its reply (February 2016) produced an annexure of batch payment through system, however, they could not provide any evidence of party wise reconciliation made through the system.

(vii) As per business rules of FCI a transaction is processed after it is approved by the super user. Only after approval by the super user can the transaction be processed by the user and further passing of the same is done by the cashier for payment. However, there was no system for the user to know whether a transaction put up for approval was approved by the super user as no feedback/prompt was generated at the time of approval of a transaction. All such transactions were shown as pending invoices until they are checked by the user by opening the invoice or by being reminded by the party whose payment is due. This created undue delays in payment. As on 05 November 2015 there were 38,698 transactions amounting to ₹ 214.36 crore which were depicted as pending for approval.

The Management stated (February 2016) that the super user approves the transaction once he gets the physical voucher for verification and approval and is required to verify the same by opening the invoice. The Management reply did not address the audit observation on feedback/prompt which was not generated by the system for invoice approvals.

5.2.3.2 Payroll Module

The inputs to this module include entries related to employee pay and leave data. The output is in the form of Salary Slip, Form-16, Contributory Provident Fund report etc. The deficiencies noticed in audit are detailed below:

(i) As per FCI Rules annual increment shall be released on 01 January every year. The rule position is silent on eligible service criteria for release of annual increment for new recruits. Therefore the organisation should comply with the rule position prescribed in Fundamental Rules and Supplementary Rules (FRSR) which state that annual increment can only be released after completion of eligible six months of service. However, audit observed that annual increment of new recruits was released by the system despite non-completion of eligible six month service. Further, audit analysis revealed that due to this deficient processing control, an excess payment on account of increments amounting to ₹ 3.46 crore was released by FCI w.e.f. January 2011 to March 2015 pertaining to new recruits joining at Assistant Grade, Manager and Assistant General Manager level. As the deficiency is yet to be rectified it will result in continuing excess payments.

The Management stated (February 2016) that the annual increment has been implemented correctly in FAP as per regulation 86 of FCI (Staff) Regulation 1971 where date of increment is 01 January. However, the reply is completely silent on the eligibility criteria of six month service for release of increment as prescribed in *FRSR*.

(ii) Though the application provided a facility for generation of Form-16 of employees it could not be made use of due to wrong processing of the tax calculation by the application. It was observed that an amount of ₹ 28.48 crore was shown as tax rebate under Section 89 of Income Tax Act, 1961 (meant for rebate on arrear of salary) for 2547 number of employees even when no arrear was received by these employees. Resultantly, Form-16 was being prepared manually leading to duplicity of work. The processing logic has not been rectified to generate accurate Form-16 through the system.

The Management stated (February 2016) that actual amount of rebate under Section 89 was ₹ 13,66,496 for 35 records. The Management reply is not tenable as its reply referred to rebate given only to employees who had made external savings whereas audit has taken into account record of all those employees who were given rebate in their Form-16 under Section 89 of Income Tax Act, 1961.

(iii) There was no provision for entering PAN details of individuals in the Professional Tax schedule wherever such tax was leviable. Due to this a separate sheet had to be prepared manually at the time of filing Tax Return. This made the system dependent upon manual intervention and was prone to human error.

The Management stated (February 2016) that no requirement of professional tax schedule was received from any of the field offices. The reply is incorrect as Professional tax is paid by FCI employees in various States like Odisha, West Bengal, Maharashtra etc.

(iv) Any recovery from employees on account of shortage/defalcation of stock/cash/spares etc., affected through Payroll Module was not getting routed though the respective claim schedule of FAP. The recovery was instead getting credited to miscellaneous income and thus the claims remained unadjusted in the present system. This results in incorrect depiction of figures in the books of accounts. As on 05 November2015 an amount of ₹ 31.69 crore of recovery was incorrectly shown as Miscellaneous Income.

The Management stated (February 2016) that instructions have now been issued to field offices to adjust such claims to the extent of recoveries taken in Miscellaneous Income.

The Management reply did not address the audit observation of non-routing the recovery through respective claim schedule in FAP and only refers to adjustment to be made.

(v) The module lacked a validation check to restrict the amount of leave sanctioned to the extent of leave available to the credit of employee as the leave details were maintained manually.Payroll Module of the system was also found to be allowing Child care leave even to the male employees and paternity leave to female employees. Audit observed that 19 male employees and two female employees were granted child care and paternity leave respectively. This was in clear violation of the extant leave rules.

The Management accepted (February 2016) that leave records were maintained manually. Further, with regard to entry of child care leave against male employee and paternity leave to female employee, the same was rectified in Payroll Module.

The Management reply did not address the audit observation on absence of validation control in the system to prevent similar occurrences.

(vi) As per FCI regulations if any employee was on leave (except casual leave) on 01 January, his/her annual increment is not to be released. However, there was no inbuilt control in the system to enforce this rule. Audit analysis revealed that leave salary of 1211 employees was released even when they were on leave on 01 January 2015.

The Management stated (February 2016) that there is a provision to recover the differential increment through Maintain Direct Payroll (MDP) in case the employee is on leave. Evidently the system has no preventive control and is dependent on post transactions adjustments/recovery.

(vii) The module lacked the facility to calculate the amount of gratuity of retiring employees based on their employment/payroll data and the same continued to be calculated manually and then fed into the computerized system making it prone to human error and creating a risk of incorrect payments. Similarly, there was no facility in the module to calculate month wise breakup for arrears of pay given to employees; the arrear sheets were still being prepared manually.

The Management stated (February 2016) that entry of gratuity is made in the system after manual sanction order.

The Management reply is silent on the audit observation about absence of auto calculation of gratuity and arrear sheet by the system.

(viii) As per extant FCI rules no Special Duty Allowance (SDA) was payable to the employees who were on leave for more than 15 days in a given month. However, it was observed that in absence of inbuilt control in the system, the system allowed SDA even to those employees, who were on leave for more than 15 days. Thereafter deduction for such overpayment was done manually. In absence of inbuilt control system, overpayments cannot be ruled out.

The Management stated (February 2016) that there is no such condition to disallow SDA to an employee who was on leave for more than 15 days.

The Management reply is incorrect as FCI circular dated 21 August 1991 clearly states that no Special Duty Allowance (SDA) is payable to employees who were on leave for more than 15 days in a stretch.

(ix) The lowest competent authority for releasing increment in basic pay for employees/labour is Area Manager. However, it was noticed that the increments can be released using the login credentials of Assistant/Manager at the district level. Moreover, for such actions no authentication of higher management was required while releasing increment through Payroll Module of FAP. Apart from such increments being released in an unauthorized fashion the practice also created a risk of inaccurate increments being given to employees.

The Management stated (February 2016) that the increment is fed in the system only after receiving the administrative order from the Personnel Division and accepted that it is an offline process due to non-availability of Human Resource Management SystemModule in FAP.

5.2.3.3 Discrepancies in data

Inconsistencies and discrepancies in data are as detailed below:

(i) In East Zone of FCI there was a difference of ₹ 1,019.81 lakh between the figures of the Trial Balance and that of the schedules generated through FAP. After being pointed out by Audit, the discrepancy was adjusted by FCI by passing rectification entries through General Ledger Module. However, the reasons for the differences were not analysed by FCI to take any corrective action.

(ii) Age wise analysis for the debtors and creditors pertaining to the period prior to 31 March 2013 could not be generated due to incorrect porting of legacy data.

The Management stated (February 2016) that legacy data was taken as an opening balance as on 01 April 2013. Therefore, age-wise analysis for the invoices older than 31 March 2013 was not available.

The Management reply itself suggests that the legacy data was not entered year wise during data entry at the implementing stage of the system which resulted in above deficiencies.

(iii) Normally accounting entries are made either through the Accounts Receivable or Accounts Payable Module whereby such entries are also automatically captured and reflected in the schedules pertaining to respective account head. However, accounting entries made through the Journal Module were not being reflected in the respective schedules. Audit analysis revealed that there were 87,833 such entries amounting to ₹ 38,106.00 crore as on 05 November 2015. Thus, absence of matching figures in schedule for General Ledger entries renders the audit trail defective for tracing and vouching for Management Information System.

It was seen in audit that no records were available to indicate documented authorisation of the competent authorities for high value journal entries (over ₹1 crore) requiring authorisation by different level of officers as per the limits indicated in FCI's circular no. 932/Accts of 15 December 2004. In absence of such documentation it could not be verified in audit if the above provisions were being complied with.

The Management accepted and stated (February 2016) that a circular to obtain *post facto* approval of all the JEs above the prescribed amount had been issued to field offices.

5.2.4 Non mapping of business rules into the application

In order to successfully capture the business rules of an organization in a computerised application it is essential that they may be coded (after authorized BPR[1] if any) into the software. Deficiencies in mapping of business rules are given below:

(i) In FAP Head of account (1631[2]) clear reflection of output tax collected, deposited and adjusted could not be ascertained from the Trial Balance which was depicted under manual head of account (5.136 A, 5.136 B and 5.136 C[3]) prior to computerisation.

The Management stated (February 2016) that multiple account heads were not required as it was not found to be appropriate.

The reply of the Management is not tenable as due to merger of A/c head 5.136 series in to single accounting head 1631- Output tax (in FAP), clear reflection of output tax collected, deposited and adjusted is not ascertainable from the Trial Balance.

(ii) In the Stock Ledger Summary (SLS) generated through FAP there was no option of closing stock valuation at standard rates and measurement unit of quantity of food grains. Moreover, there was no option of capturing details of Goods in transit in the SLS. Thus, absence of above renders the audit trail defective with incomplete MIS in FAP.

[1] ***Business Process Re-engineering.***
[2] ***Head of account of Output Tax in FAP***
[3] ***Manual Head of accounts for output tax prior to computerisation***

The Management stated (February 2016) that closing stock is valued at average acquisition cost and no account head for goods in transit is required as no accounting entry is passed in transit.

The Management reply is not tenable as closing stock and goods in transit continue to be valued through a manual system and not from data entered in the FAP.

(iii) The modules for trade receivable and trade payable were not interlinked. Thus, there was no option to generate customized reports like details of outstanding against a single supplier/customer and a valuable input for the management was found missing because of this deficiency.

The Management stated (February 2016) that a net off report is available in Receivable Module to ascertain outstanding against a single supplier/customer.

The Management reply is not tenable as audit contention is about the net off report of Trade receivables and trade payables rather than the report mentioned by the Management which is net off report for Trade Receivable Module only.

Conclusion

FAP was envisaged as an enterprise wide system to automate and integrate FCI's Finance, Treasury, Inventory and payroll functions across all its units. However, even after spending ₹ 21.84 crore (including hardware and software), it was seen that the system is unable to generate financial statements as per the requirement of the Companies Act, 2013. Moreover, the project management suffered from number of deficiencies such as lack of system documentation, inadequate disaster recovery and business continuity planning.

The programming logic of main modules (Financial Accounting and Payroll) was found to have multiple deficiencies resulting in generation of incorrect output and unreliable data. Many business rules of FCI have not been mapped into FAP, thus limiting its utility as an MIS.

Moreover, instead of making use of Oracle Inventory Module in the FAP system, FCI Management decided to spend another ₹ 200.78 crore on a completely different project 'Depot online' which will have to be linked and integrated with FAP.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

5.3 Award of work of construction of godown on nomination basis

Food Corporation of India entrusted the work of construction of a godown to Assam State Warehousing Corporation on nomination basis in violation of guidelines laid down by the Central Vigilance Commission and without carrying out due dilligence in assessing their technical expertise and capability. Subsequently, FCI terminated the contract due to non-performance by Assam State Warehousing Corporation and entrusted the work to another agency which resulted in avoidable extra expenditure of ₹ 21.27 crore.

The Central Vigilance Commission (CVC) guidelines (July 2007), while referring to a Supreme Court of India judgment[1], stated that tendering process or public auction is a basic requirement for award of contract by any Government agency as any other method, especially award of contract on nomination basis would amount to a breach of Article 14 of the Constitution guaranteeing right to equality, which implies right to equality to all interested parties. However, in rare and exceptional cases, for instance during natural calamities and emergencies declared by the Government, where the procurement is possible from a single source only, where the supplier or contractor has exclusive rights in respect of goods or services and no reasonable alternative or substitute exists, where the auction was held on several days but there were no bidder or the bid offered was too low, etc., this normal rule may be departed from and such contract may be awarded through 'private negotiations'. The aforesaid guidelines of CVC had further laid down that mere post facto approval of the Board, rather than the inevitability of the situation, was not sufficient to award the contracts on nomination basis.

The Executive Director {North East (NE) Zone}, Guwahati of FCI entered into (December 2009) an agreement with Assam State Warehousing Corporation (ASWC) for entrustment of work of construction of 50,000 metric tonne (MT) capacity godown at Changsari, Guwahati at an estimated cost of ₹ 34.86 crore. The work was awarded on nomination basis, without following the procedure of open tender. However, the Zonal office of FCI did not record any reason for awarding the construction work on nomination basis, highlighting any rare and exceptional circumstances that would have justified such an award of work. Further, the award of work by the Executive Director (NE Zone) was beyond the powers delegated to him but it was subsequently ratified (June 2010) by the Chairman and Managing Director (CMD) of FCI. In absence of any justification establishing the inevitability of the situation thus warranting the need for awarding the work on nomination basis, the ratification done by CMD, FCI was also not in consonance with CVC guidelines.

During execution of this work, FCI deposited (March 2010) a sum of ₹ 2.75 crore with ASWC as initial advance for construction of godown which was to be completed by ASWC within two years from the receipt of advance i.e. by March 2012. However, the value of work done by ASWC during the two years period was only ₹ 2.56 crore. As the work was not completed within the agreed time, FCI intimated (July 2012) ASWC that due to lack of capability for executing the construction work, the agreement would not be renewed and therefore the work entrusted to ASWC was withdrawn (July 2012) as per terms of the agreement.

Audit observed that FCI cited (July 2012) technical incapability in executing the work as primary reason for terminating the agreement with ASWC as it did not equip itself with the required number of qualified engineers to supervise the project in a professional way and was also not aware of the quantum of work, methodology for calculation and structural designing of the project. This was completely in contradiction to an earlier communication of January 2010 by ED (NE Zone) to FCI HQ wherein it was stated that ASWC had its own Engineering cell where sufficient engineers were available and the design specification of the godowns constructed by ASWC was as per FCI pattern. Thus, from the apparent contradiction in the facts stated by FCI at the time of award of contract

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[1] ***Nagar Nigam, Meerut Vs A1 Faheem Meat Export Private Limited [arising out of SLP(Civil) No. 10174 of 2006]***

to ASWC and at the time of termination of contract, it is evident that FCI (NE Zone) did not carry out due diligence in assessing the technical expertise and capability of ASWC in executing the construction work.

Subsequently, FCI invited (November 2012) expression of interest from Central Public Sector Undertakings for taking up the remaining construction work and entered into (March 2013) an agreement with National Building Construction Corporation Ltd. (NBCC) for completion of balance work at an estimated cost of ₹ 53.57 crore which resulted in avoidable extra expenditure of ₹ 21.27 crore[1]. FCI handed over (July 2013) the construction site including the incomplete work of ASWC to NBCC for completion of work in two years i.e. by July 2015. NBCC had handed over constructed godown of 39170 MT capacity only to FCI and the balance 21 *per cent* construction work was yet to be completed (January 2016).

Thus, award of construction work to ASWC on nomination basis without evaluation of their capability not only resulted in violation of CVC guidelines but also led to subsequent termination of agreement due to non-completion of work by ASWC. Subsequent re-entrustment of the balance work to another agency resulted in avoidable extra expenditure of ₹ 21.27 crore besides delay of more than three years in completion of work.

The Management stated (February/November 2015) that there was urgency for creation of storage capacity for buffer stock for public distribution system in the North-East zone. The work was entrusted to a government agency such as ASWC which cannot be termed as award on nomination basis and that the CVC guidelines were not applicable in cases where work is entrusted to Central/ State Government, Central/ State PSUs who execute the work at Central Public Works Department (CPWD) schedule of rates by following CVC guidelines.

The reply is not acceptable as these reasons were not recorded at the time of awarding the work and appears to be an afterthought after audit has raised the issue; even the issue of urgency is untenable as more than five years have lapsed and the godown is yet to be fully constructed and put to use. Further, the CVC guidelines did not grant any exemption in cases where work is entrusted to Central/ State Government, Central/ State PSUs who execute the work at CPWD schedule of rates.

The matter was reported to the Ministry in October 2015; their reply was awaited (March 2016).

5.4 Undue benefit to the transport contractors

GOI exempted incidence of service tax on transportation of food grains in February 2010. However, Regional offices of Food Corporation of India at Guwahati and Shillong floated tenders for transportation of food grains inclusive of element of service tax in violation of their Headquarters' instructions of October 2012. This resulted in avoidable payment of element of service tax of ₹ 13.18 crore to the transporters.

[1] *Increase in cost estimate = Revised estimate – (Original estimate – Value of work done)*
= ₹53.57 crore – (₹34.86 crore - ₹2.56 crore) = ₹21.27 crore

According to Section 68(2) of the Finance Act, 1994 read with Rule 2(i)(d) of the Service Tax Rules 1994, FCI, the recipient of service of transport contract is required to deposit the Service Tax on the taxable service cost with the Service Tax Authority.

Food Corporation of India (FCI) Headquarters issued (March 2008) directives to its field offices to include a condition in Model Tender Form (MTF) that all tenderers (for transportation of food grains/sugar) were required to quote rates inclusive of all taxes, duties, cess etc. Consequently, the rate quoted by the transport contractors for transportation of food grains/sugar included freight (per metric tonne per kilo meter) and Service Tax on taxable portion of freight without any bifurcation of rates for services and taxes on services. The field offices released payments to the transport contractors after deduction of Service Tax from gross bill amounts for depositing the same with the Service Tax Authority (GOI).

The GOI vide its notification dated 27 February 2010 exempted the services provided by a goods transport agency for transportation of food grains from incidence of Service Tax. To clarify the matters arising out of change in Service Tax due to exemption and absence of separate rates for service and Service Tax in contract, FCI West Bengal Regional Office and FCI Kerala Regional Office referred (March/November 2010) the matter to FCI Headquarters. The issues were examined by finance, legal and contract wings of FCI Headquarters and it was discussed that since there was no Service Tax on transportation of food grains after 27 February 2010, FCI should not enrich the road transport contractors by paying them the service tax amount. FCI Headquarters issued (April 2011) instructions to its field offices to release payment to the road transport contractors after deducting proportionate amount of Service Tax from their gross bill amounts.

Further, in October 2012 FCI Headquarters circulated guidance note on Service Tax to its field Offices wherein it was clarified that future contract might be floated seeking rates exclusive of Service Tax.

Audit, however, observed that in violation of above instructions of FCI Headquarters, the Regional offices at Guwahati[1] and Shillong[2] continued to float tenders for transportation of food grains/sugar inclusive of Service Tax. As there were common contracts for transport of food grains and sugar, the transport contractors were paid after deducting the amount of Service Tax from their bills in case of sugar. Whereas in case of transport of food grains, the payments were released to the contractors at rates quoted by them which included component of Service Tax as was applicable in case of transportation of sugar, as the tender conditions specified that the rates to be quoted should be inclusive of all taxes. Thus, payments were released to the transports unjustifiably including Service Tax component despite exemption of incidence of Service Tax on the transportation activity of food grains. Thus, FCI suffered an avoidable loss of ₹13.18 crore in these two regions due to not deducting inadmissible component of Service Tax from the transportation bills of food grains during November 2012 to March 2015 in respect of contracts finalized after October 2012.

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[1] Nine Area offices under Regional Office at Guwahati namely, Bongaigaon, Kokrajhar, Nagaon, Silchar, Jorhat, Dibrugarh, Tezpur, North Lakhimpur and Guwahati.

[2] Three Area offices under Regional office at Shillong namely, Shillong, Aizawl and Agartala

FCI North East Zonal Office Management stated (February 2014) that payments were released due to contractual obligations of accepting all inclusive rate as per MTF. They further stated that they would approach FCI Headquarters for modification of MTF.

The reply of Management is not tenable as FCI Headquarters issued (April 2011) instructions to its field offices to release payments to the contractors after deducting proportional amount of Service Tax from their gross bills and it had further issued instructions (October 2012) to float tenders seeking rates exclusive of Service Tax. Thus, the tender conditions were not in agreement with the FCI Headquarters instructions (October 2012) and release of Service Tax component to the contractors in two regions of FCI resulted in undue enrichment of the transport contractors.

Thus, issue of tenders inclusive of Service Tax in Regional offices of FCI at Guwahati and Shillong for transportation of food grains in violation of the instructions of FCI Headquarters and release of payment to the transport contractors without deducting component of the Service Tax resulted in an avoidable loss of ₹13.18 crore.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

5.5 Extra expenditure on transportation of food grains

Food Corporation of India incurred extra expenditure of ₹ 11.22 croreon transporting food grains to its food storage godowns in and around Bhiwandi from Railways' Turbhe goods shed instead of a nearer point of Kalyan goods shed.

Food Corporation of India (FCI) decided to use Railways' Kalyan goods shed (KGS) for economical transportation of food grains to its godowns in and around Bhiwandi (Maharashtra) on the basis of preliminary survey (August 2009) and site visit (September 2009). Accordingly, FCI awarded (October 2009) contract for handling and transport of food grains from KGS to its food storage godowns in Bhiwandi.

While placing two Railways rakes at KGS and unloading food grains during January 2010, FCI incurred demurrage charges[1] of ₹12.01 lakh and wharfage charges[2] of ₹ 15.47 lakh due to delay in unloading and transportation of food grains. FCI set up (25 January 2010) a committee to investigate demurrage and wharfage charges incurred at KGS and to ascertainthe extent of these charges attributable to the contractor. The committee in its report (30 January 2010) stated that the contractor neither deployed sufficient labour for unloading the food grains from the Railways' rakes nor provided loaders and trucks in sufficient numbers for subsequent loading and transportation of food grains. The committee further stated that there was an unloaded cement rake at the same time, which affected unloading of food grains and also expressed apprehension that in view of regular placement of rakes carrying cement and other chemicals at KGS, accumulation of cement, chemical powder and dust on platform would be a regular phenomenon.

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[1] *Charge levied by railways for detention of any rolling stock after expiry of free time, if any, allowed for such detention.*

[2] *Charge levied by railways on goods for not removing them from the railway after expiry of free time for such removal.*

Thereafter, FCI discontinued (April 2010) handling operations from KGS because of non-supply of tarpaulins by Railways, non-cleaning of platform, placement of rakes without adequate space on the platform, unrest among staff and police restrictions on entry of heavy trucks to KGS. Since then food grains to Bhiwandi area are being handled through Turbhe goods shed (TGS) leading to additional expenditure on transportation of food grains as the food grain transportation distance increased by 24 Km when compared to KGS. This led to extra expenditure of ₹11.22 crore during April 2010 to March 2015.

FCI stated (May 2014) that Audit had focused only on saving of transportation cost but had not considered the value of food grains that could have been contaminated, become unfit for human consumption and thus, the decision to continue using TGS in place of KGS was sound in the broader interest of manpower and society. The Management further stated (January 2015) that due to bad experience of FCI in handling of rakes on experimental basis at KGS, it was not utilised further. However, FCI Regional office, Maharashtra was instructed by FCI Headquarters to reassess the feasibility of KGS for starting operations instead of TGS, for supply in the adjoining areas. The Ministry endorsed (April 2015) the Management reply of January 2015 and added that FCI Regional office, Maharashtra had awarded (March 2015) *ad-hoc* handling contract to M/s NSS Logistics and operations at KGS are expected to begin soon.

Evidently, the two replies of the Management are contradictory in nature whereby earlier reply implied that KGS was unfit for fear of contamination while the later reply states that FCI is exploring the possibility to restart the operation from KGS. In fact, the delay in unloading and transportation of food grains at the time of placing Railway rakes at KGS was mainly due to poor logistics provided by the contractor. FCI's decision to discontinue operations at KGS based on operation of only two rakes was not justified as FCI, RO Maharashtra stated (July 2015) that no contamination of food grains at KGS was encountered during past five years. Further, FCI did not have constructive discussion with the Railways and Police authorities before taking the decision to discontinue handling operations from KGS.

Thus, the decision to discontinue transportation of food grains from KGS without making efforts to resolve the issues encountered at KGS resulted in extra expenditure of ₹ 11.22 crore besides recurring loss in the form of extra expenditure on transportation due to increase in distance for transportation of food grains to the godowns in the Bhiwandi area.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

CHAPTER VI: DEPARTMENT OF FERTILIZERS

The Fertilizers and Chemicals Travancore Limited and Madras Fertilizers Limited

6.1 Marketing of Products of Fertilizer Companies

6.1.1 Introduction

The Fertilisers and Chemicals Travancore Limited (FACT) was incorporated in September 1943 as a private limited company. It commenced production in 1947 and became a Government company in 1962. The paid up capital as on 31 March 2016 was ₹ 647.07 crore. FACT produces mainly Ammonium Sulphate and Complex fertilizer under the brand name of "Factamfos".

Madras Fertilisers Limited, Manali (MFL) was incorporated in December 1966 as a joint venture between Government of India (GOI) and AMOCO India Inc. of U.S.A. After disinvestment of shares by AMOCO, the paid up capital as on 31 March 2015 was ₹ 162.14 crore. MFL produces mainly Urea and complex fertilisers under the brand name of "Vijay".

6.1.2 Audit objectives, criteria and scope and methodology

Audit of marketing of products was conducted to assess whether (a) the Marketing activities of fertilisers are carried out efficiently, (b) the system of appointment of dealers, hiring of godowns/warehouses, transporters, rail head handling etc was transparent, fair and as per the sound commercial principles, (c) the internal control mechanism in the Companies was effective in transportation of finished products, hiring of godown, railhead transportation etc, and (d) the Companies claimed and received the subsidy in time as per guidelines .

Criteria for audit consisted of provisions of Fertilizer Control Order, 1973/1985, Fertilizers policy, Memorandum of Understanding (MOU) with Department of Fertilizers, Ministry of Chemicals & Fertilizers, guidelines of Central Vigilance Commission (CVC) on tendering and of GOI on subsidy.

6.1.3 Audit findings

Performance of the Companies, in marketing of fertiliser products and their production activity wherever relevant, are discussed in the succeeding paragraphs:

6.1.3.1 Performance of the Companies in Marketing

FACT and MFL separately entered into MoU with Ministry of Chemicals and Fertilisers (GOI) for production of Factamfos and Ammonium Sulphate (FACT) and Urea and Complex fertilisers (MFL) during the period of audit, viz., 2012-13 to 2014-15, based on the production capacity of the plants, performance of previous years etc. The details of targets for production/Sales as per MOU and actual production and sales in respect of these products for three years 2013-13 to 2014-15 were as detailed below:

MoU Targets and Actual Production/Sales of Urea and NPK

(In lakh MT)

Name of Company	Name of product	Period	MoU target (Production/Sales)	Production	Sales
FACT	Factamfos	2012-13	6.80	5.40	5.52
		2013-14	6.80	6.57	6.54
		2014-15	6.80	5.98	6.22
	Ammonium Sulphate	2012-13	1.80	1.26	1.35
		2013-14	1.70	1.79	1.66
		2014-15	1.80	1.20	1.11
MFL	Urea	2012-13	4.70	4.36	4.24
		2013-14	4.70	4.87	5.00
		2014-15	4.80	3.29	3.26
	NPK	2012-13	4.04	1.00	1.02
		2013-14	3.02	0.45	0.45
		2014-15	0.45	0.74	0.74

Audit observed that:

- One of the reasons for non-achievement of the sales targets during 2012-13 to 2014-15 by FACT was non-achievement of production targets in the corresponding years. The reasons for non-achievement of production targets were intermittent shutdown of plants due to shortage of raw materials and breakdown of plants. Further, the non-achievement of the production and sales target, as per MOU, was one of the reasons for the company being given adverse credit rating by the bankers which resulted in charging higher interest rate on cash credit facilities availed by the company.
- In the case of MFL, the sales targets could be achieved only in 2013-14 for Urea and 2014-15 for NPK. The company achieved target for NPK due to fixation of very low target in 2014-15. The company took a conscious decision to stop production of costlier complex fertiliser (NPK) by using Nitrogen from captive Ammonia with naptha as feedstock because the government stopped releasing additional subsidy for NPK fertiliser under Nutrient Based Subsidy (NBS) since April 2012. One of the reasons for non-achievement of targets was non-achievement of production target, reasons being intermittent shutdown of plants due to shortage of raw materials, breakdown of plants and lack of production of captive Ammonia.

6.1.3.2 Management of Marketing Contracts

(a) Award of contracts on ad-hoc basis/without tendering (FACT)

The Company has been awarding ad-hoc contracts for Railhead handling and transportation, and hiring permanent godowns without following tendering process.

A review of the railhead[1] contracts in audit for the period 2012-13 to 2014-15 in states of Kerala and Karnataka indicated that:

- The Company did not finalize permanent contracts through open tender in respect of Kayamkulam (from August 2012 to 18 August 2013, 19 February 2014 to 19 March 2014 and 28 November 2014 till date), Palakkad (from April 2013 to September 2013), Calicut (from January 2015 till date), Thrissur (from January 2015 till date) and Shimoga (never entered into permanent contracts). The Company instead carried out the Railhead activities through adhoc contracts (contracts entered into through limited tendering).
- The company could not finalize permanent railhead contracts in Kerala since the bidders quoted higher rates in the three open tenders (floated in August 2011, September 2012 and July 2014) floated by the company. The reason for getting higher rates in second and third tender was due to inclusion of shortage clause[2] in the tender conditions**.** In the case of Shimoga, the rates quoted by the bidders were found to be on higher side and the bidder did not extend the validity of their offer so that negotiation could not be carried out with the bidder.

The non-finalization of permanent railhead contracts/non-tendering of hiring of godowns, thus resulted in reduced transparency in procedures and the reasonability of rates for godowns could not be ascertained.

The Company agreed that permanent railhead contracts should be finalized at the earliest to avoid payment of higher rates on ad hoc contracts. Materials Department has been processing the tenders for Railheads and whenever the rates were high and not reasonable, finalization of contracts got delayed, and in order to move the product adhoc contracts were made.

Audit further noticed that the Company was hiring permanent godowns without following usual tendering process and was renewing the agreements for hiring of godowns at the end of the existing agreement period at renewed rates after negotiation with the owners of the godown. The value of contracts entered into for godowns (permanent & temporary) by the Company amounted to ₹ 1.32 crore (2012-13), ₹ 0.92 crore (2013-14) and ₹ 0.81 crore in 2014-15.

The company stated that the Materials Department was taking efforts in speedy processing of tenders for hiring permanent godowns as per the laid down procedures.

The company's reply should be viewed in the light of the fact that despite the orders (22 July 2014) of Deputy General Manager (Marketing) for hiring of godowns on tendering basis, the Company has not adhered to the procedure (February 2016).

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[1] ***The scope of work under the railhead contract includes clearing of bagged products (such as fertilizers, gypsum or any other materials) from wagons at the RH location, unloading on to Railway Platform (if necessary) and loading on to trucks/lorries for onward movement to required destinations and also transportation of bagged products in trucks/lorries placed by contractor from Rail Head to Godowns /Stock Point Dealers and ASC's.***

[2] ***Clause for recovering cost of shortages, found between Railway Receipt quantity and delivered quantity at receiving RH, from the dues/bills of the contractor***

(b) Awarding contracts on basis of single tender without resorting to retendering

According to guidelines issued by CVC, single tender is to be resorted to only under exceptional circumstances such as natural calamities and emergencies or there were no bids to repeated tenders or where only one supplier has been licensed (proprietary item) in respect of goods sought to be procured. However, MFL did not resort to re-tendering in cases where only a single bid was technically qualified and awarded the B&S[1] contracts during the period 2012-13 and 2013-14 to a single bidder.

Audit noticed that:

- During 2012-13, two new conditions[2] were incorporated in the contracts with a view to ensure the financial capability of the contactor in making payments to labourers. However, out of the three bids received, the existing contractor, who was already irregular in making payments to the labourers, was the only qualified bidder, and was awarded the contract. This defeated the purpose of incorporation of the new conditions in the contract besides violating CVC guidelines.
- During the period 2013-14, though the tender conditions specified experience of three years, the contract was awarded to an inexperienced single bidder on trial basis. Even though the performance of the contractor was found to be not satisfactory[3], Company extended the contract up to 31 October 2013 instead of floating tenders in the trial period. The legal opinion that insisted upon experience for evaluation of bid as per the tender conditions was also ignored while awarding the tender.

(c) Post tender negotiations (MFL)

There should be no post tender negotiations with lowest bidder (L1), except in certain exceptional situation as per the CVC instructions (January 2010). Resorting to post tender negotiation on regular basis may prevent receipt of most competitive offer at the time of submission of bids. The Company appointed contractorsfor transportation and warehousing separately by inviting tenders from eligible contractors with experience in transporting fertilizers from the Railheads to various dealers. Audit scrutiny of railhead contracts awarded for 35 locations in 2012-13, 20 locations in 2013-14 and 43 locations in 2014-15 revealed that the Company negotiated with L1 in all contracts for the year 2012-13 and 2013-14 and 79 *percent* of contracts for the year 2014-15 as shown below.

Year	2012-13	2013-14	2014-15
Total no of contract awarded	35	20	43
No. of contracts where negotiations held with L1	35	20	34

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[1] ***Bagging, upkeep, handling and shipping operations***

[2] ***viz., Submission of Service tax and ESI & PF returns for 3 years in Form ST 3, Form 5 and Form 6A respectively (Earlier, the number for ST, ESI & PF only need to be provided) and the turnover of ₹ 2.00 crore for 3 years***

[3] ***Due to non-supply of required no. of workers/labourers, stoppage of work due to payment problem and delayed reporting of workers/labourers, which also led to shutdown of plant***

Every evaluation process would not be an exceptional situation and hence conducting negotiations with L1 contractors on almost every occasion was against CVC guidelines.

(d) Absence of contracts for certain locations (MFL)

The Company had 57 Railhead locations.Contracts were, however, not awarded to cover all the locations every year. The procurement Manual of the Company did not specify any norms in this regard except indicating that contracts should be awarded within three weeks of completion of earlier contract. During 2012-13, 2013-14 and 2014-15, the Company did not enter into any contracts for 24, 39 and 15 locations respectively. In the absence of contracts for such RH locations, supply for the districts / dealers was made from the nearest RH location or road movement from Plant. This entailed extra expenditure as under recovery in road movement was higher compared to railhead movement. However, additional expenditure could not be quantified in audit.

The company stated (August 2015) that it required four months for finalising the contract; hence, the contracts could not be finalised in time for all locations.

The reply is to be viewed against the fact that the Company was aware of the timelines for existing contracts and should have initiated the tender process before their expiry so that the next contract could be finalised without any delay. Further, so long as the contracts were not finalised to economise the operations, the chances of incurring higher cost by distributing to the districts from a farther railhead are not ruled out.

(e) Delay in finalising stevedoring contracts (MFL)

A review in audit of the stevedoring contracts awarded by MFL during the period 2012-13 to 2014-15 indicated the following:

(i) Tender procedures for Stevedoring contract for 2012-13 was initiated in July 2012 and the contract was awarded to SICAL in December 2012 after a delay of more than four months.

(ii) The tender procedures for 2013-14 were initiated only in November 2013. The Chief Executive approved the e-tender enquiry in May 2014 and the tender were awarded in June 2014.

The Company stated (July 2015) that the delay was due to the expected extension of the existing contract for another year not materialising.

The Company's reply should be viewed against the fact that it did not strengthen the tendering procedure to avoid delay in finalisation of contract.

6.1.3.3 Claiming and receipt of subsidy

(A) Delay in claim and receipt of price subsidy

(i) Delays in respect of FACT

Audit noticed the following delays in respect of FACT:

(a) There have been delays on the part of the Company in raising the 85 *per cent* 'on account' claim with the Government. They arose due to delays in regularization of

Supply Plan by Department of Fertiliser (DoF) and delay on the part of the statutory auditor in certifying the claims. For generating the subsidy claims in Fertilizer Monitoring System (FMS), the supplies of fertilizers in districts are to be made as per the Supply Plan and in case of deviation from the supply plan regularization of Supply Plan is required. The Company being dependent on overdraft facilities, the delay in claiming of 85 *per cent* price subsidy resulted in avoidable interest burden of ₹ 8.28 crore (at 14 *per cent*) after allowing grace period of 15 days for generation and certification by statutory auditors as shown below:

Year	Amount (₹ in crore)	Delay (Range in days)	Loss of interest (₹ in crore)
2012-13	502.44	10 - 106	5.94
2013-14	162.44	12 - 49	0.86
2014-15	252.63	5 - 29	1.48
Total			**8.28**

A test check of claims for 12 months out of 36 months (33 *per cent*) in audit revealed the following:

- There was no provision in the FMS site to allocate quantities for supply of Ammonium Sulphate in the monthly plan, which results in absence of an approved Supply Plan for Ammonium Sulphate. The movement of the Ammonium Sulphate has to be approved by the DoF subsequently which results in delay in claiming and obtaining subsidy against Ammonium Sulphate. Since Factamfos and Ammonium Sulphate produced in Udyogamandal Division comes under one license, the delay in approval of Supply Plan of Ammonium Sulphate also resulted in delay in claiming of subsidy for Factamfos produced in Udyogamandal Division.

- In four out of the 12 months, FACT could not intimate DoF on time[1], the actual quantities supplied against the supply plan, so that the Supply Plan could be regularized with actuals and claim could be generated.

- In the subsidy claims for two months, the difference of actuals from the Supply Plan was only 317.75 MT and 602.35 MT. Since the regularization of Supply Plan results in delay in claiming of subsidy, the company should have avoided the change in Supply Plan.

- Even if the movement of actual fertilizers against Supply Plan is informed to DoF in time, the regularization of the Supply Plan is delayed by the DoF and generation of claims also gets delayed.

(b) There was delay ranging from 25 days to 636 days in claiming 15 *per cent* balance subsidy amounting to ₹ 59.14 crore by the Company due to non-completion of sales within one month of supply of fertilizers, shortage finalization and delay in

[1] ***Delay of more than 10 days in intimating the correct actuals against supply plan to DoF***

certification by auditor. This delay has resulted in a loss of interest of ₹ 2.37 crore due to the delays which ranged between 25 to 636 days upto October 2012.

(c) The 15 *per cent* balance subsidy from November 2012 amounting to ₹ 163.12 crore could not be claimed by the company in time due to non-transfer of data to mFMS[1] by the DoF as shown below:

Year	Amount (₹ in crore)	Delay (Range in days)
2012-13(from Nov 2012)	39.84	518-638
2013-14	99.69	310 -522
2014-15	23.59	187 - 279
Total	**163.12**	

(d) As on 31 March 2015, subsidy amounting to ₹ 448.22 crore was pending to be received from the Government (₹ 1.16 crore for 2008-09, ₹ 2.35 crore for 2009-10, ₹ 0.47 crore for 2010-11, ₹ 0.44 for 2011-12, ₹ 40.51 crore for 2012-13, ₹ 111. 52 crore for 2013-14 and ₹ 291.77 crore for 2014-15).

The Company stated (December 2015) that the submission of proposed Supply Plan for Ammonium Sulphate was not facilitated in FMS and therefore regularization by DoF was required every month for the entire quantity supplied. Further, the supply of fertilizers as per Supply Plan would result in dumping of products in places where demand of the product was less, which would have negative impact on sales; hence submission of revised supply plan based on actual receipts was inevitable and the consequent delay is unavoidable. The acknowledgement of receipt of the fertilizers is to be done by the retailers in mFMS for claiming the 15 *per cent* balance subsidy and the data has to be transferred to the FMS since claims could be generated only from FMS site. The non-transfer of data from mFMS to FMS by DoF since November 2012 in respect of sales completed resulted in delay in claiming of the balance 15 *per cent* subsidy.

The reply of the Company is to be viewed against the following facts:

- The Company communicated change in supply plan to DoF (in 4 out of 12 cases) only after seven to 28 days after giving 10 days grace period, from the end of the month.

- Non-inclusion of supply plan for Ammonium Sulphate in FMS was not taken up with DoF to reduce the delay in claiming the subsidy.

(ii) Delays in respect of MFL

As per policy of Department of Fertilisers (Order No. 19011/59/2003-MPR (pt.) dated 12 March 2009), manufacturers/ importers could claim "On account" payment of 85 *per cent* (NPK) and 95 *per cent* (urea) on the basis of arrival of the products in the district

[2] ***Mobile Fertilizer Monitoring System***

of the State/ Union Territory upon uploading of Proforma A & C in the FMS[1] on the basis of the certification of the same by the Statutory Auditor of the Company. The State Government/Union Territory concerned would be required to submit certification of receipt of fertiliser in Proforma B within one month. The manufacturers could claim the balance subsidy upon Proforma D being uploaded in the FMS. Audit observed that:

- As on 31 March 2015, subsidy amount of ₹ 740.11 crore was pending to be received from the Government (₹ 45.26 crore for 2012-13; ₹176.08 crore for 2013-14 and ₹ 518.77 crore for 2014-15).

- The Company has generated the data for balance 15 *per cent* subsidy relating to Price Concession Subsidy (PCS) claims for ₹ 5.02 crore for the period 10/13 to 5/ 14 only in 2015 and was yet to prefer the claim (December 2015) with GoI.

- Claim for ₹ 67.41 crore being the five percent balance amount for Urea was yet to be made for want of certification from State Government (December 2015).

(B) Delay in claiming freight subsidy

(i) Delay due to failure to update system (FACT)

The Company transports fertilizers (Factamfos and Ammonium Sulphate) from Udyogamandal Plant to Kalamassery Railhead through Trucks/Lorries for further transportation by railways to respective states/districts. This being part of primary freight (Plant to respective states/districts), Company is eligible for freight subsidy. Freight claim generation was made online through FMSfrom March 2009.However, FMS does not have a provision for claiming freight subsidy for the said transportation. The company preferred manual claims for these subsidies; however, they were not admitted by DoF. The freight subsidy receivable since March 2009 on this account amounted to ₹ 8 crore.

The Company stated (December 2015) that approval of the DoF was required for incorporating the facility of updating the transportation and freight claims could be generated through FMS only after incorporating the facility. The issue has been taken up with DoF and it was expected that changes would be incorporated in FMS system soon.

(ii) Under recovery of road freight (MFL)

As per the policy of the Department of Fertiliser, movement of fertilisers by Rail and Road should be in the ratio of 80:20.Further the DoF policy stated that the company would get subsidy for primary road freight equivalent to rail freight. The primary road freight was always higher than the rail freight and therefore the higher the fertilizers transferred through road, the higher the under recovery of freight subsidy.

Audit noted that the company transported fertilizers ranging from 43 to 68 *per cent* by road during the period 2012-13 to 2014-15. Further, the increased movement of fertilizers

[1] Fertilizer Monitoring System

through road resulted in under recovery of freight subsidy amounting to ₹ 12.41 crore as detailed below:

(₹ in crore)

Year	2014-15	2013-14	2012-13
Urea	3.20	3.42	2.02
NPK	2.25	0.43	1.09
Total	**5.45**	**3.85**	**3.11**

6.1.3.4 Other Points

(a) Idling of infrastructure at Kochi Port due to non-allocation of Urea handling operation (FACT)

GOI awarded (May 2012) the Urea handling operations at Kochi Port to FACT for a period of three years from 2012-13. Audit noticed that

(i) Despite awarding of the contract, no allocation of Urea was made to Kochi Port from May 2012 to December 2015, which resulted in non-utilization of the infrastructure facilities of FACT Ltd. at Kochi Port optimally. The non-allocation of Urea can be attributed to lack of follow up of the company with the DoF, as corroborated by the following facts:

- FACT is the only company, which has received allocation during earlier years (2008-09, 2009-10 and 2011-12) and did not receive allocation for the period 2012-13 to 2014-15.
- The company apprised the Board (459th Board Meeting on 29 January 2014) about non-allocation of Urea to Kochi port only after lapse of almost 2 years without any urea allocation.
- There have been Urea Sales of 1.36 lakh MT, 1.44 lakh MT and 1.36 lakh MT in Kerala during 2012-13, 2013-14 and 2014-15 respectively. Since there were no Urea Manufacturers/importers in Kerala, Urea had to be supplied from other states.
- The company also failed to submit ₹ 50 lakh bank guarantee which was required for the award of contract; and

(ii) Despite having stock of 1.35 lakh Urea bags as on 31 March 2012, FACT ordered four lakh Urea bags in January 2013 (which were delivered in January 2014) though urea handling operations had not been allotted to the company during the first two years of contract. This purchase of Urea Bags resulted in blocking up of the cost of these bags at ₹ 96 lakh till March 2016. It was further noticed that the chances of utilization of these bags in future by FACT is bleak because the company has not submitted its bid to DoF against Notice Inviting Tender for Urea handling, neem coating and marketing of imported Urea shipments for the period 2015-16 to 2017-18. The Company also did not find it feasible to create facility for the mandatory neem coating at Cochin port. The non-participation of the company in the tender for Urea allocation points towards possible non-utilization of the urea bags.

The Company noted with concern (December 2015) that the profitable urea operations were not allotted to the Company due to lack of follow up with DoF. Company also stated that they were committed to handle urea vessel if and when allotted by DoF on short notice as per the contract and it was essential to purchase and maintain adequate stocks of bags for bagging urea.

The Company's reply is to be viewed against the fact that it had sufficient stock of bags as on 31 March 2012 for urgent use and purchased urea bags after a lapse of almost two years from the award of contract. The Company should have purchased additional bags only in the case of allocation of urea to Kochi port/assurance from DoF for allocation of Urea materialises.

(b) Inadequacies in Logistics Plan (MFL)

The freight subsidy for distribution/movement of fertilizers included Primary freight (by rail from the plant or the port to various rake points) and Secondary Movement (by road from nearest rake points to the block headquarters in the Districts). The quantum of secondary freight subsidy reimbursed was based on the average district distance in respect of Urea, whereas for complex fertilizers this was not reimbursed. The cost of secondary transportation as incurred by the company through FoL (Free on Lorry) contracts was higher than the expenses reimbursed by DoF and there was an under recovery of ₹ 15.48 crore in respect of Urea during the three years covered under audit as detailed below:

Details of freight paid, freight allowed and Under recovery				
Year	**Product**	**Expenses incurred towards FOL (₹ in crore)**	**Expenses reimbursed by GOI towards secondary cost (₹ in crore)**	**Under recovery on secondary cost (₹ in crore)**
1	2	3	4	5
2012-13	Urea	8.83	3.49	-5.34
2013-14	Urea	10.34	4.29	-6.05
2014-15	Urea	6.79	2.70	-4.09
	Total	**25.96**	**10.48**	**-15.48**

The company did not furnish to audit adequate records for scrutinizing the economics in the secondary movement of fertilizers. Hence, audit could not conclude whether the under recovery of ₹ 15.48 crore was avoidable.

Conclusion

The Companies did not achieve the MoU targets for production and sales effectively. The marketing performance of the Companies had overall adverse repercussions like poor rating by bankers and charging of interest at higher rates by them etc. There were delays in claiming and follow up of subsidy from Government of India due to which the Companies faced liquidity crunch. Audit also noticed cases of non-adherence to the CVC guidelines in finalisation of bids.

Recommendations

The following recommendations are made:

- ***MFL should take up with GoI issue of underutilisation of NPK plant.***
- ***Both the Companies should strive to achieve the MoU production and sales targets.***
- ***The Companies should adhere to the CVC guidelines and strengthen all the processes of tendering to ensure that they are transparent and fair.***
- ***The Companies should formulate a follow up mechanism to keep a check on requirements of Department of Fertilisers, Government of India for release of outstanding subsidies and take concrete steps to reduce the delay in claiming subsidy, and***
- ***Maintain sufficient records for the logistics plan to assess the economics of secondary fertiliser movement and reduce the under recovery.***

The matter was reported to the Ministry in February 2016; their reply was awaited (March 2016).

Rashtriya Chemicals and Fertilizers Limited

6.2 Infructuous expenditure on leasing of land

Infructuous expenditure of ₹ 9.02 crore on leasing of land from Visakhapatnam Port Trust and loss of interest of ₹ 2.67 crore

The Board of Directors of Rashtriya Chemicals and Fertilizers Limited (RCF) decided (July 2007) to acquire 10 acres of land on lease from Visakhapatnam Port Trust (VPT) for a period of 30 years for construction of storage area of about 80000 MT which could be fully utilized for storage of RCF cargo. The proposal was based on the following:

(i) Import of 1.25 lakh MTs each of Muriate of Potash (MoP) and Di Ammonium Phosphate (DAP) at Vizag and Tuticorin during 2005-06 and 2006-07 i.e. 2.50 lakh MTs per annum.

(ii) The Company was offered urea handling operation on behalf of Government of India for three years extendable for another two years.

(iii) Overall saving on account of storage, transportation and dispatch was expected to be more than ₹ 100 per metric ton after developing the infrastructure. Entire investment was expected to be recovered within a period of two years depending on the volume handled.

RCF paid ₹ 7.65 crore (₹ 7.24 crore towards upfront lease premium, ₹ 0.40 crore towards non-refundable premium, ₹ 0.004 crore towards annual rent and ₹ 0.004 crore towards refundable security deposit) in October 2007 to VPT. In addition, RCF incurred an expenditure of ₹ 1.37 crore towards registration charges, annual nominal rent, etc. between April 2009 and March 2014. Thus, total expenditure incurred on leasing the land was ₹ 9.02 crore. RCF took possession of the land in January 2008 and also entered (June 2009) into a lease deed with VPT.

After taking over the land, RCF invited (September 2010) offers for development of leased land on joint venture concept. However, the tender did not fetch desired response and it was decided (April 2011) not to pursue the joint venture approach but to develop warehouse and related facilities on Build, Operate and Transfer (BOT) basis. VPT, however, refused (August 2011) permission stating that there was no provision in the Government guidelines for development of warehouse on BOT basis. The Company, decided (October 2011) to proceed with the construction of warehouse on its own and offers were invited (November 2012) on open tender basis. The estimated expenditure based on the lowest offer was ₹ 15.56 crore. However, an inhouse viability study revealed that the proposed construction of warehouse was not feasible as the traffic at the port had considerably reduced due to diversion of traffic to nearby Gangavaram port. The project was dropped (July 2013) and instead it was decided to explore the possibility of setting up a container freight station. This project was also not found techno economically viable. RCF then proposed to install Photovoltaic Solar Power generation facility, which also did not materialise as VPT did not grant permission.

The lease agreement required RCF to develop the facilities within a period of 18 months of the lease agreement or within the further time given by VPT, failing which the Port can terminate the lease agreement without any notice. VPT notified (January 2015) RCF to vacate and hand over vacant possession of the land back to VPT immediately and also stated that no more correspondence would be entertained in this regard. VPT also intimated (November 2015) that the lease agreement did not provide for any refund or compensation if the lease was terminated on the ground of default or failing to adhere to lease conditions. RCF removed the leased land from its fixed assets schedule and charged off its carrying value amounting to ₹ 6.73 crore during 2014-15.

Audit observed the following:

- The feasibility study conducted by RCF consisted only of projected financial performance and failed to consider other critical viability factors like realistic estimation of expected volume of cargo and the impact of existing Kakinada port and Gangavaram port under construction, on cargo volume.
- The Board was apprised of the import of 2.50 MTs of MoP and DAP per annum at Vizag and Tuticorin Ports, while placing the proposal for construction of warehouse at Vizag, Tuticorin and Kandla Ports. The actual import at VPT alone during 2005-06 and 2006-07 was only 47144 MTs and 65987 MTs respectively, which was not considered by the Board.
- The Board was intimated that Company has been offered imported urea handling operations on behalf of GoI for three years with likely extension for two years. The Board was informed that the total expected import volume at the three ports viz. Vizag, Tuticorin and Kandla was 15 lakh MT per year without highlighting the fact that Urea handling contract for VPT was not awarded to RCF.

- The Board of Directors authorized (July 2007) the Chairman and Managing Director for construction either by the Company or under any other arrangement such as BOLT as may be feasible, but the Company did not seek any clarification from VPT in this regard. It was only after taking the land on lease, that the Company approached VPT for permission to develop the warehouse on BOT basis which VPT denied.

Audit further observed that after the proposal for developing the storage facility by means of JV or BOT did not materialize, RCF invited (November 2012) bids for own construction of warehouse without studying its feasibility. The viability study which was conducted (June 2013) only subsequent to invitation of bids revealed that own construction of warehouse by the Company was not feasible.

The Management and the Ministry stated (January 2016) that the investment in the infrastructure of Vizag Port Trust was RCF's backward integration plan made for handling the anticipated increased imports of urea, rock phosphate, potash and other chemicals which RCF was expected to meet to fulfill the country's requirement. RCF had after acquiring the land initiated various steps to utilise the Vizag land, but subsequent developments did not proceed as per the envisaged plan of Government of India, Port and RCF and land could not be utilised for the desired purpose due to various unforeseen factors beyond their control and viability issues in spite of best efforts. They added that had the godown been constructed by investing huge money, it would have remained idle and the Company would have continued to incur expenditure on import through other ports (as rates were lesser) in addition to the cost incurred for construction of the godown and its maintenance. They have further stated that they have asked for refund of the amount paid and have also taken up the matter with the Ministry of Shipping and response is awaited.

The reply of the Management and Ministry are not tenable as the decision to take the land on lease was based on incorrect, inflated and inadequate information. The various attempts made for utilising the land on joint venture, build operate transfer basis, self construction of facilities only indicated that they had no concrete plans to put in place the import handling facilities within the sanctioned period of the lease. Also the limited feasibility study did not examine the potential prospects of construction/utilization of storage facility.

Thus, inadequate planning for development of warehousing facilities and utilization of leased land at Vizag Port Trust, resulted in infructuous expenditure of ₹ 9.02 crore besides loss of interest of ₹ 2.67 crore (October 2007 to March 2015) (based on minimum fixed deposit interest rates for each year). RCF's efforts to get back refund of the upfront lease premium paid to VPT looks bleak as the Port has refused the refund of ₹ 7.65 crore since the lease was terminated due to failure to adhere to lease conditions.

CHAPTER VII: MINISTRY OF FINANCE

IFCI Factors Limited

7.1 Decision to reschedule loan without insisting on adequate tangible security led to non-recovery of dues

IFCI Factors Limited decided to restructure short term loan sanctioned in December 2010 to Glodyne Ventures and Holding Private Limited without insisting on tangible security which led to non-recovery of dues of ₹ 24.23 crore.

IFCI Factors Limited (the Company) offers corporate loans/short term loans to the customers for general purpose/augmenting their working capital. These loans are backed by suitable security in the form of pledge of listed shares/equitable mortgage of tangible properties.

In order to meet expenses for various business initiatives of Glodyne Ventures and Holding Pvt Ltd. (GVHPL) (a Glodyne Group Company) the Company sanctioned and disbursed corporate loan of ₹ 15 crore in December 2010. The tenure of the loan was two years including a moratorium of 17 months. Accordingly, it was repayable in three equal quarterly instalments of ₹ 5 crore each in June, September and December 2012. The loan was secured by 5,86,000 shares of Glodyne Technoserve Limited (GTL, a group company) having market value of ₹ 42.95 crore (December 2010), to cover at least 250 *per cent* of loan. Subsequently in May 2012, the number of pledged shares were increased to 11,69,490 due to fall in value of security. Besides, post dated cheques (PDCs) for interest/principal repayment were also obtained in the form of security.

The loan agreement with the borrower stipulated that the borrower would top up shares in 3 working days, if the value of stipulated security cover fell by 10 per cent to maintain security cover of at least 250 *per cent* of the outstanding loan amount at all the times during the currency of loan. The borrower had to provide cash margin within 3 days, if the market value of shares fell by 20 *per cent* from the initial pledge price. Further, additional security to the satisfaction of the Company was to be provided when the security provided by the borrower was lost or became inadequate to cover the balance of the loan.

GVHPL defaulted in payment of interest with effect from May 2012 and the first instalment of loan due in June 2012. Further, the share price of GTL fell drastically from ₹ 341.95 per share on 25 July 2012 to ₹ 218.90 per share on 27 July 2012 (36 *per cent* fall). The prices further decreased to ₹ 87.30 per share (74 *per cent* fall) on 24 August 2012 resulting in reduction of security cover to ₹ 10.21 crore which was below the loan amount by around ₹ 5 crore. Meanwhile (on 12 August 2012), ICRA (Investment Credit Rating Agency) reduced the rating of GTL from A2+ (Strongly safe), assigned to its ₹ 75 crore commercial paper programme, to D which is the default level rating (i.e., the instruments with this rating are in default or expected to be in default on maturity). Moreover, ICRA withdrew its BBB+ (moderately safe) rating assigned to the ₹ 75 crore

Non-convertible Debenture programme as it failed to raise funds against the rated instrument.

Despite being aware of fall in security, reduction of credit rating by ICRA and default in payment of both principal and interest, the Company restructured the loan and signed (28 August 2012) a Memorandum of Understanding (MoU) with GVHPL along with other lenders with modified terms and conditions which stipulated that the interest due and payable as on 1 July 2012 would be payable by 31 August 2012 and the interest due and payable by 15 September 2012 would be payable by 15 September 2012 and subsequent interest shall be paid on the first day of every month starting from 1 October 2012. The principal was to be repaid in six quarterly instalments starting from 1 January 2013 and ending on 1 April 2014. Additional interest of 2 *per cent* would be charged on account of security shortfall till the time security cover was restored to the stipulated value. GVHPL failed to make interest payment by 31 August 2012 and thereafter.

The Company started selling shares from October 2012 and realized ₹ 1.23 crore till December 2012 and adjusted the same towards overdue interest of ₹ 1.57 crore.GVHPL failed to repay the principal due on 1 January and 1 April 2013. The Company again started selling of shares from May 2013 to September 2013 and realized ₹ 74 lakh and adjusted towards overdue interest and deposited (July 2013) post dated cheques for ₹ 2.19 crore to make further recovery. But the cheques were dishonored and therefore the Company filed (September 2013) a complaint u/s 138 of Negotiable Instrument Act. Even then no repayment towards principal and interest was received. Again, the Company started (19 December 2013) selling shares and sold entire stock of 33,504 shares and realized ₹ 2.84 lakh. Further, GVHPL is in the process of winding up as per the orders (October 2014) of the Bombay High Court.

Audit observed that:

- The decision to restructure the loan with lenient terms was injudicious as GVHPL did not furnish additional security to cover the loan of ₹ 15 crore as per the terms of loan agreement when the value of security reduced to ₹ 25 crore (₹ 218.90 per share) against the required security of ₹ 37.50 crore on 27 July 2012 and further drastically reduced to ₹ 10.21 crore (₹ 87.30 per share) on 24 August 2012. It was a clear evidence of poor financial strength of GVHPL. Further, D (Default) rating by ICRA indicated payment delays and liquidity constraints of GTL.
- Considering the continuous fall in price of shares from July 2012 to the date of MOU, the Company could have sold the pledged shares to recover the maximum possible instead of entering into MOU with liberal lending terms.
- Tangible security should have been insisted at the time of restructuring instead of additional interest of 2 per cent on account of security shortfall till the time security cover was restored to the stipulated value.

The Ministry replied (February 2016) that in view of security short fall as stipulated by lenders, non-payment of outstanding dues and GVHPL's inability to restore security cover or pay cash margin despite repeated request to the Company, the lenders of GVHPL decided (22 August 2012) to allow the Company time to recover and service the debt, instead of selling the pledged shares in bulk which would have resulted in price fall immediately and more drastically.

The reply is not tenable because GVHPL was defaulter in repayment of principal from the beginning and of interest from May 2012 and there was no certainty in recovering the dues considering the reduced rating by ICRA. Further, the Company failed to insist on additional tangible security to safeguard its financial interest but signed the MoU with liberal terms and conditions without having adequate security in violation of its own credit policy which led to non-recovery of dues of ₹ 24.23 crore (₹ 15 crore principal and ₹ 9.23 crore towards interest.)

7.2 Non Compliance with provisions of credit policy and extension of undue favour led to non-recovery of dues

IFCI Factors Limited deviated from provisions of credit policy while appraising the financials of a buyer and extended undue favour to Gangotri Iron and Steel Company Limited by not selling the pledged shares which resulted in non- recovery of dues of ₹ 13.22 crore

IFCI Factors Limited (the Company) is offering wide range of products to the target customer segments to satisfy their specific credit needs. Domestic Sales bill factoring is one among them whereby the client (seller) invoices the goods to a domestic buyer located within India, assigns the invoices to the Company and receives prepayment up to 80 to 90 *per cent* of the invoice value immediately. The Company follows up the payment with the buyer. The buyer makes the payment directly to the Company and the Company makes the balance payment to the client (seller). The credit policy of the Company for the year 2011-12 stipulates that the client should not have concentration of sales exceeding 15 *per cent* of its total sales to a particular buyer and extensive due diligence exercise should be carried out to ensure the credit worthiness of client and buyers before sanctioning factoring facility.

The Company sanctioned (July 2011) domestic sales bill factoring to Gangotri Iron and Steel Company Limited (GISCO) to the extent of ₹ 10 crore against the sales invoice to be raised on 13 buyers with factoring limit of ₹ 1 crore to ₹ 2 crore against each buyer. Vijay Traders was one among the 13 buyers. An agreement was entered into (August 2011) between the Company and GISCO the terms of which *inter alia* stated that the buyer/GISCO would repay the factoring facility availed within 90 days or less from invoice dates as may be approved for each buyer. Further, GISCO shall furnish post-dated cheques for ₹10 crore, pledge equity shares of aggregate market value not less than the amount equal to two times the facility amount with top up at 10 *per cent* fall in the market price, personal guarantee of promoters and corporate guarantee of group companies. Accordingly, GISCO pledged 34.50 lakh[1] shares of GISCO valuing ₹ 20 crore (@ ₹ 57.97 per share) and fulfilled other formalities.

[1] GISCO also pledged 5.38 lakh shares during September-November 2011 taking the pledged shares to 39.88 lakh shares

Though the Company initially extended factoring facility against invoices on six buyers[1] of GISCO, this facility was extended only to Vijay Traders from 28 December 2012 onwards because GISCO was having business only with Vijay traders.

Audit observed that since beginning, Vijay Traders was not making timely payments as it took 141 to 307 days in making payments for various invoices against stipulated period of 90 days. Further, neither repayment of principal nor payment of overdue penalty was made by Vijay Traders from 2 December 2013 onwards by which date the principal dues amounted to ₹ 9.99 crore.

Meanwhile, Market value of pledged shares had decreased to ₹ 28.70 per share on 17 January 2012 resulting in fall in security to the extent of ₹ 11.23 crore i.e 1.12 times only of facility extended. GISCO failed to top up the security andthe Company sold (2-13 January 2012) 74175 shares for ₹ 34.71 lakh and adjusted the sale proceeds against the outstanding dues of ₹ 9.64 crore (including overdue penalty) as on 20 January 2012. However, on the request (January 2012) of GISCO explaining its financial hardship, the Company did not sell any shares till November 2014. From November 2014 onwards, though the Company sold 9,86,638 shares, it could realise only ₹ 7.31 lakhas market value of pledged shares had fallen considerably[2] by that time.

GISCO deposited (December 2013) post-dated cheques valuing ₹ 7.14 crore for encashment but all the cheques were dishonoured. Company also failed to encash pledged shares in time and as a result outstanding dues against GISCO amounted to ₹ 13.22 crore (₹ 9.99 crore towards principal and ₹ 3.23 crore towards penalty for overdue principal) as on 30 June 2015. Against this dues the security available with the Company was 29.27 lakh shares valuing ₹ 7.32 lakh (@ ₹ 0.25 per share).

Following deficiencies were observed by Audit in this case:

- The Company did not ensure the credit worthiness of Vijay Traders and seven other buyers before sanctioning the factoring facility, due to non-availability of their financials.

- Despite significant delays in payment of dues by Vijay Traders since beginning, credit limit for them was increased thrice i.e. from ₹ 1 crore to ₹ 2 crore in August 2011, ₹ 6 crore in August 2012 and ₹ 10 crore on 5 March 2013 without any recorded justification. This was done despite the fact that there was 100 *per cent* sales concentration with Vijay Traders since December 2012 onwards which violated credit policy of company that client should not have concentration of sales exceeding 15 *per cent* of its total sales to a particular buyer.

[1] Vijay Traders, Shanti Steels Limited, Rani Sati Enterprises, TanuInternatioanl, Sonalika enterprises and ChauriChaura steels.

[2] Value of shares which was ranging from ₹30.95 to ₹50.40 between January 2012 to February 2013 remained at less than ₹2 in November 2014

- Despite significant fall in security cover[1] that started from January 2012 onwards Company did not sell the pledged shares though as per its own agreement in case of shortfall in security cover, it could have sold shares to realise its dues.

- The personal guarantee of promoter and corporate guarantee of group company were not invoked because it costs four *per cent* of outstanding dues as court fee to the Company without any guarantee for realisation of dues.

The Company replied that (November 2015) decision to defer the process of sale of shares was taken based on the prospects of better recovery from the client and improvement in share price. Further, it has put in place a system and teams to monitor/track movement of shares to take immediate action either for sale of shares or top-up of security in a situation where there is fall in security. It also stated that legal action has been initiated against the client and complaints have been filed against the client company and its directors under Negotiable Instruments Act which are pending adjudication before the Court.

Ministry endorsed (February 2016) the reply of the Company and stated that the decision to increase the credit limit of Vijay Traders was a conscious business decision taken by the Competent Authority. The facility was continued in anticipation of revival in the macro-economic conditions as a result of which GISCO would also be able to recover.

The reply is not acceptable because GISCO while requesting the Company not to liquidate its shares in January 2012 had assured to regularise its accounts by February 2012. After failure of GISCO to fulfil its promise, Company could have sold the pledged shares to recover its entire outstanding dues when the share prices were ranging from ₹ 36.05 to ₹ 50.40 per share during March 2012 to February 2013. Moreover, decision to extend credit limit for Vijay Traders thrice despite continuous defaults in payment and 100 *per cent* sales concentration with them was also not prudent. So far as taking legal action against client is concerned, it was only for dishonour of cheques and no recovery suit could be filed by the Company as it involved further loss to the Company on account of payment of 4 *per cent* of claimed amount as Court Fee.

Thus, lack of due diligence while appraisal, frequent upward revision in credit limit and failure to sell the pledged shares resulted in non-recovery of dues of ₹ 13.22 crore.

STCI Finance Limited

7.3 Blocking of funds in bad loans

Failure to initiate timely action by the Company as per provisions of lending policy and terms & conditions of facility agreements, resulted in bad loans and blocking up of own funds to the extent of ₹ 152 crore and loss of interest of ₹ 39.36 crore

STCI Finance Ltd. (formerly known as Securities Trading Corporation of India Limited)(Company), has been undertaking lending and investment activities as a Non-

[1] ***The security cover was up to ₹17.24 crore on 28 February 2013, ₹10 crore on 4 March 2013, ₹4.15 crore on 28 March 2013 and it drastically reduced to ₹ 77.88 lakh in October 2014 against the required security of ₹20 crore.***

Banking Financial Company (NBFC) registered with Reserve Bank of India (RBI) which classified it as a Loan Company.

The loan book of the Company showed (as on 30 June 2015) 112 loans amounting to ₹ 4113 crore of which loans amounting to ₹ 3627 crore were disbursed to 107 clients. As per clause 13.4 of its lending policy any asset, in respect of which interest remained overdue for six months or more, was to be treated as Non-performing Asset (NPA). Audit examined 20 high value loans including all the seven loans that were declared as Non-performing Assets (NPA). Audit observed that in five cases where loans were declared as NPAs, the Company did not initiate action as stipulated by the Lending Policy. All other cases were performing satisfactorily as per loan book and as per test check in audit.

Clause 15.2 of the lending policy of the Company states that, if a corporate client defaults in payment of dues to STCI despite follow up and issue of recall notice and if the primary security is mortgage and/or hypothecation besides guarantees (personal/corporate), the Company has to enforce security interest immediately and inform the Board. As soon as an asset becomes NPA, a recall notice is to be sent to the borrower and guarantor and acivil suit for recovery should be filed within six months (Clause 15.6). In case of NPAs, the Company should strive hard to recover its dues in shortest possible time through negotiations with the client. In case of likelihood of prolonged negotiations, the Company should explore possibility of selling its NPAs to Asset Reconstruction Companies (Clause 15.4).

Details of three loans declared as NPAs wherein STCI failed to take up action as stipulated by the lending policy is as under:

Sl. No	Details of Borrower and amount disbursed	Details of loan disbursement/ repayment	Purpose of loan and collateral securities available	Details of Repayment / Default and action	Amount due on Principal + Interest (30 June 2015) ₹ in crore
1	**Biltube Industries Ltd.** **(BIL) - ₹ 15.00 Crore**	November 2010 To be repaid in 10 installments (quarterly) from 01-07-2011	Loan for General Corporate purpose including part financing of captive power plant against the primary security on the entire fixed assets valuing ₹317.07 crore	Paid only two installments of ₹1.50 crore each. *Declared the loan as NPA on 31-07-12.*	19.19 (12.00+7.19)
2	**Era Housing & Developers (India) Ltd.** **(EHDL) - ₹ 25.00 Crore**	March 2010 One year Loan was renewed from time to time. Last renewal on 23.09.2013 for a period of twelve months.	Loan sanctioned against pledge of 37,59,819 shares of promoter Company viz. Era Infra Engineering Ltd. The Company sold (February 2014 to December 2014) 32,86,201 shares of the borrower and adjusted the amount of ₹ 2.46 crore towards interest due. The market value of shares remaining with the Company is ₹ 13.97 lakh (September 2015).	Defaulted the payment of interest since October 2013 *Declared the loan as NPA on 01.03.2015.*	25 (Interest amount adjusted from sale of shares pledged)

3	**Two promoter companies of Tulip Telecom Ltd. viz. Cedar Infonet Pvt Ltd (CIPL -₹50 crore), Sukhmani Technologies Pvt. Ltd. (STPL- ₹50 crore)** ***and its promoters in individual capacity*** **(₹15 crore)** **₹ 115.00 Crore**	September 2010/ February 2012 / September 2013 The two loans to CIPL & STPL renewed in November 2013.	Loan sanctioned against pledge of shares Tulip Telecom Ltd. (₹ 1.43 crore + ₹ 1.35 crore) and against Second & subservient mortgage charge on residential property for individual loan of ₹ 15 crore.	*The Company declared them as NPAs in August /September 2014.* *Recall notices issued (September 2014)*	147.17 (115.00+ 32.17)

Audit observed the following in respect of the three loans:

- BIL defaulted in payment of installments from the first due date of 1st July 2011. The borrower (BIL) came forward (August 2014) for a one time settlement. However, the request was not acceded to on the grounds that no concrete plan was provided. The Net worth of BIL eroded by March 2014 and was referred (July 2015) to the Board for Industrial and Financial Reconstruction (BIFR). The Company terminated the loan agreement and issued (August 2015) Recall Notice only after the borrower was registered with BIFR and three years lapsed between the declaration of asset as NPA and recalling of loanas against the provision for recall after one quarter of non-payment of interest (Clause 5(h) of the facility agreement.The Company issued notices under provisions of the Negotiable Instruments Act for three instances of dishonour of cheques. Though the personal guarantee of Directors for ₹15 crore was invoked (August 2015) by the Company, no recovery was possible as this personal guarantee was unsecured. The failure of the Company to recover its dues was despite the fact that the Company had first charge on the fixed assets of the Borrower. The Company also did not declare the borrower as a defaulter till date as per clauses 17(a) and (c iii) of the facility agreement, but only reported the details of non-payment of loans to Reserve Bank of India (RBI) periodically.

- EHDL started defaulting the payment of interest from October 2013. However, the Company could not dispose off the pledged shares to recover the principal loan as the share prices declined sharply. Audit also observed that although, the credit rating by credit rating agency CIBIL at the time of sanction of loan was satisfactory in respect of the borrower, it showed overdue position in respect of the guarantor. The loan was declared (March 2015) NPA after a delay of 10 months and Recall Notice was issued only on 30 October 2015 after delay of 17 months as against the stipulated period of six months since interest remained overdue.

- CIPL and STPL defaulted in repayment of the initial loan but the Company not only renewed the loans but also granted (September 2013) fresh loan of ₹15 crore to the promoters in their individual capacity. Various concessions extended at the time of renewal of loans included the extension of loan at the existing rate (15 *per cent*) instead of required increased rate of 15.5 *per cent* (as per renewal term and conditions) and adjustment (March 2014) of excess/penal interest charged for four months amounting to ₹ 14.69 lakhs against interest due. Despite issue (September 2014) of Recall Notice, the borrowers/ guarantors did not pay the outstanding dues. The Company did not initiate any legal action for enforcement of security as provided under clause 15.2 of lending policy (December 2015).

Thus, the inaction of the Company in declaring the loans as NPA, recalling the loans, enforcing the security, exploring the option of selling the NPA to Asset Reconstruction Companies and filing a civil suit against the Loanee within the time prescribed as per the terms of its lending policy, resulted in non-recovery of ₹ 191.36 crore towards principal and interest in the above three loan cases.

The Management stated (November/December 2015) that:

(i) **BIL** had availed credit facilities from various banks and the share of the Company was only 5% approx.The Corporate Debt Restructuring (CDR) was approved (May 2013) by the CDR Cell, and therefore STCI did not initiate recovery proceedings alone by filing suit in the court of law immediately as it was felt that common action by all lenders would be more effective than individual action by each lender. However, the CDR package failed (March 2014). It is only after State Bank of India, the lead banker of the consortium, sold its assets (March 2015) to another Asset reconstruction Company that recall notice was issued in August 2015. The action initiated under Negotiable Instruments Act continues.

(ii) **EHDL**expressed its inability to repay the dues as the group is in infrastructure sector and many of its projects were struck due to adverse economic conditions, delayed payments from various authorities, difficulty in completing road projects due to various hurdles, resulting in increase of debt. The share prices declined continuously which restricted the efforts to liquidate the stock. The client had been servicing interest with some delays upto April 2014, due to continuous follow up and persuasion from the Company. The additional land parcels were obtained as security only after extreme pressure from the Company. Recall Notice was issued on 30 October 2015 and the Company is in the process of filing suit for recovery of dues.

(iii) **CIPL & STPL**were unable to provide additional margin by way of pledge of shares or deposit of cash margin. As a result of free fall of TTL shares in stock markets (August 2012), no lender could sell any shares. To provide further assistance for the successful implementation of the CDR package, the individual loan was sanctioned against available asset cover on the residential property of the promoter already mortgaged to another lender. The CDR package could not be implemented due to various reasons. The Board of the Company has approved (7 November 2015) initiation of arbitration proceedings against STPL and individuals and filing of suit against CIPL.

(iv) The accounts declared as NPA are reported to CIBIL by way of monthly updation of data.

The Ministry stated (January 2016) that the matter was taken up with RBI and RBI has intimated that STCI Finance Ltd. had classified the accounts mentioned as NPA and that it has no comments to offer on the recovery process adopted by the Company.

The reply is not tenable as the Company being an independent NBFC and having first charge on assets of BIL, should have taken appropriate and timely action to recover the dues, when the CDR package failed or when the borrower came forward for one time settlement. No legal action was initiated against the defaulters. The Company's decision to not initiate recovery proceedings did not yield expected result since SBI, the lead banker of loan to BIL sold its loans to an Asset Reconstruction Company in March 2015 without intimation to the Company. In respect of the borrower EHDL, the value of security shares with the Company was only ₹ 0.14 crore and the value of additional security in the form of agricultural land was ₹13.36 crore as against the loan amount outstanding of ₹ 25 crore. Further, the probability of recovery through the guarantor was also not certain as even at the time of sanction of loan, the credit report for the guarantor showed overdues. In the case of loans to CIPL, STPL and the promoters, the security available in the form of 2.78 crore pledged shares of TTL are not disposable and second charge on the residential property of ₹ 109 crore in respect of the borrowers against the loan of ₹ 115 crore will not be sufficient to secure the interest of the Company. Further, the additional loan of ₹ 15 crore, was extended without obtaining any additional security.

Thus, the failure of the Company to initiate appropriate action as per provisions of its Lending Policy and terms & conditions of Facility Agreements resulted in bad loans and blocking up of Company's own funds to the extent of ₹152 crore and loss of interest of ₹ 39.36 crore thereon.

United India Insurance Company Limited

7.4 Avoidable payment of insurance claim due to excess retention of risk

Due to failure to arrange Facultative (FAC) reinsurance before underwriting of risk beyond its automatic capacity, UIIC had to pay an avoidable claim of ₹ 8.93 crore

United India Insurance Company Limited (UIIC) (the Company) issued (March 2009) a Marine cum Erection Policy[1] to BHEL Pipava Project (the insured) covering a period from 20 March 2009 to 19 March 2012 for a sum insured of ₹ 1,501.04 crore. The Per Bottom Limit (PBL[2]) in the policy was ₹150 crore and the company's share of PBL was ₹ 135 crore as risk shared between the company and Oriental Insurance Company was in the ratio of 90:10. The Company's automatic capacity[3] was ₹103.50 crore. Despite the fact that PBL was more than its automatic capacity, the company did not arrange facultative reinsurance for excess insurance coverage of ₹ 31.50 crore (i.e., ₹ 135 crore – ₹ 103.50 crore).

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[1] ***Policy No.500300/21/08/02/000001360 issued at New Delhi date 20 March 2009***

[2] ***PBL is the maximum value of consignment in a single transit declared by the insured covering marine cargo risk.***

[3] ***Automatic capacity = ₹103.50 crore [Obligatory ₹13.50 crore + Net retention of ₹10 crore+(inter-group treaties + surplus treaties) of ₹80 crore]***

The insured (BHEL) reported a loss of ₹114.48 crore under the policy due to damage caused (August 2009) to gas turbine while carrying it to Pipavav site. The final insured value for this consignment was ₹130.18 crore. The Company assessed the loss at ₹ 83.95 crore and approved (October 2013) net claim of ₹ 75.44 crore after deducting ₹ 8.51 crore towards non-protection of recovery rights. The company paid its share of ₹ 67.90 crore from net approved claim. Thus, the company made an avoidable payment of ₹ 8.93 crore[1] due to non-arrangement of facultative reinsurance for risk covered beyond its automatic capacity.

The Management while accepting the audit point stated (December 2013) that facultative reinsurance was not arranged for the consignment due to non-receipt of prior information with regard to the transit of the consignment and further stated that the variation in reinsurance program was approved (March 2011) by the competent authority while settling the claim. Ministry has endorsed (March 2015) the view of the management.

The Management's Ministry's reply is to be viewed in the light of the fact that as the Per Bottom Limit was more than automatic capacity, the company was required to take Facultative reinsurance for the insurance coverage exceeding its automatic capacity while underwriting the risk. No specific approval for the deviation from approved RI program was accorded by the competent authority.

Thus, due to failure to arrange Facultative reinsurance before underwriting of excess risk beyond its automatic capacity, the Company had to sustain an avoidable payment of claim of ₹ 8.93 crore.

[1] ***Avoidable claim payment: Total net claim (₹75.44 crore)*90 per cent (i.e. ₹67.90 crore) *13.18 per cent (i.e. ₹8.95 crore) minus proportionate premium income (₹1.78 lakh)=₹8.93 crore***

CHAPTER VIII: MINISTRY OF HEALTH AND FAMILY WELFARE

HLL Lifecare Limited

8.1 Efficiency and effectiveness of marketing activities

Highlights

❖ HLL has not evolved any distinct, separate and documented Marketing Policy

(*Para 8.1.2.2*)

❖ In respect of realization of outstanding receivables beyond credit period, the Company did not charge any interest on delayed payments by the parties. HLL had an outstanding of ₹ 86.39 crore as on 31 March 2015 under direct marketing and exports, of which ₹ 14.43 crore was outstanding beyond a period of one year to five years and ₹ 4.69 crore was overdue, beyond five years.

(Para 8.1.2.2)

❖ In Consumer Business Division, the outstanding dues beyond credit period showed an increasing trend and rose sharply from ₹ 2.58 crore in 2012-13 to ₹ 11.38 crore in 2014-15.

(Para 8.1.2.3)

❖ The position of debtors {excluding Government Business Division (GBD)} ranged from 22.36 *per cent* to 58.18 *per cent* and almost all the marketing divisions had an unhealthy position in 2014-15.

(Para 8.1.3.1)

❖ There was non-collection/submission of sales tax documents on sales/stock transfer valued at ₹ 3.54 crore resulting in avoidable statutory liability on HLL.

(Para 8.1.3.2)

❖ HLL has no formal method of conducting market research for product change and development, to combat competition resulting in stagnant and/or dwindling market share of its products.

(Para 8.1.4.1)

8.1.1 Introduction

HLL Lifecare Limited (HLL) under the Ministry of Health & Family Welfare was incorporated on 01 March 1966. HLL manufactures and markets a wide range of contraceptives such as condoms, intra-uterine devices, oral and emergency pills, cream, tubal-rings and also blood collection bags, surgical sutures, auto disable syringes, vitro-diagnostic test kits, shunts, iron and sanitary napkins etc. The turnover of HLL for the year ended 31 March 2015 was ₹ 1058.05 crore with a profit after tax of ₹ 31.55 crore.

HLL has distribution network covering the country through its various divisions viz., Hi-Care Division (HCD), Women Health Care Division (WHD) being operated from

Chennai and Consumer Business Division (CBD) operated from Bengaluru. The Government Business Division (GBD) mainly operates through Regional Office at Noida, which procures orders from the Central and various State Governments for contraceptives and hospital products.The International Business Division (IBD) at Kochi handles HLL's export operations.

A review of the marketing activities carried out by various divisions, for three years from 2012-13 to 2014-15 was taken up with a view to assess the efficiency and effectiveness of those operations.

8.1.2 Audit Findings

8.1.2.1Sales targets and achievements

The sales targets and achievements by the CBD, HCD, WHD, IBD and GBD, in marketing of products during the years 2012-13 to 2014-15 are given in ***Annexure-I.***

It was noticed that all the domestic divisions failed to achieve their respective targets, particularly in the last two years. Moreover, two marketing divisions viz., CBD and HCD continuously failed to attain the target since 2012-13 onwards. The IBD could achieve its target during the year 2012-13 only. However, it was observed that targets were increased to three times in 2013-14 but were subsequently brought down in 2014-15 but even the reduced targets could also not be achieved.

The shortfall in achievement of sales targets was in spite of substantial funds of ₹ 22.12 crore, ₹ 22.15 crore and ₹ 30.95 crore spent by HLL during 2012-13, 2013-14 and 2014-15 respectively on marketing of its products. It was also observed in audit that as against the Memorandum of Understanding (MOU) agreed net-worth of ₹ 491.43 crore and ₹ 531.01 crore, HLL could achieve ₹ 399.40 crore and ₹ 426.29 crore during 2013-14 and 2014-15 respectively.

The Ministry stated (March, 2016) that HLL sets challenging turnover targets for its Marketing Division and the same used to be much higher. Hence, there is bound to be slippages in the achievement of targets, but nevertheless, the turnover achieved reflects healthy growth in business year after year.

The reply is not acceptable, as it consistently failed to achieve the targets which indicate that its growth of sales was not commensurate with the overall market growth of the related products.

The contributory factors for this sub-optimal performance of HLL are discussed in the succeeding paragraphs:

8.1.2.2 Non-uniform credit policy and non-levy of interest on payments delayed beyond credit period

It was noticed that HLL had no distinct and separate documented Marketing Policy, it sold its products, both on cash and credit basis. The terms of grant of credit period and credit limit and relaxation/extension of credit period were found to be varying on a case-to-case basis. There was no uniform structure in grant of credit limit and period to its clients.

In respect of realization of outstanding receivables beyond credit period, HLL did not charge any interest for delayed payments and had an outstanding of ₹ 86.39 crore as on 31 March 2015 from clients under direct marketing and exports. Out of this, ₹ 14.43 crore was outstanding beyond a period of one year to five years and ₹ 4.69 crore was overdue, beyond five years. HLL stated that it was as per business practice existing in the market, however, it could not provide any documentary evidence to support its contention. As HLL was sourcing its funds through cash credit availed from bankers, non-levy of interest though cited as a business practice, resulted in loss of interest to the extent of ₹ 9.15 crore.

Information on the exact credit period availed by the parties and the cost of credit to the customers was not found available with the Management. Lack of above information severely curtailed HLL's ability to effectively monitor and recover outstanding amounts.

It was further noticed in audit that in WHD, the turnover actually came down from ₹ 133.51 crore in 2012-13 to ₹ 117.37 crore in 2014-15, in spite of grant of credit period and credit limit to its clients. Evidently, the credit facility, though stated to be a market practice, has failed to increase the turnover of this important division and being ineffective, requires re-evaluation.

The Management stated (January 2016) that substantial portion (₹ 81.73 crore) of the total outstanding beyond credit period belongs to the government institutions for which credit period did not exist.

The Management contention is not correct as HLL provides 90 days credit period to the government institutions and the Management in its reply of January 2016 itself accepted that an amount of ₹ 47.18 crore out of ₹ 81.73 crore was overdue i.e., outstanding beyond the permitted credit period.

8.1.2.3 Lack of monitoring in the implementation of credit terms for realization

A test check of records selected for implementation of credit terms, revealed that outstanding dues, beyond credit period, were substantial and stood at ₹ 312.92 croreon 31 March 2015. The main observations are given below:

- Products like Nirodh, Mala-D and female condoms were marketed by CBD through stockists and retail outlets. The outstanding dues beyond credit period showed an increasing trend and it rose sharply from ₹ 2.58 crore in 2012-13 to ₹ 11.38 crore in 2014-15, i.e., from 16.07 *per cent* of total dues of the division in 2012-13 to 50.64 *per cent* of total dues during 2014-15.
- In WHD, where products like female contraceptives, pregnancy test-kits were dealt with and marketed through retail outlets, the total dues beyond credit period, increased from ₹ 22.32 crore in 2012-13 to ₹ 28.09 crore in 2014-15.
- In the case of exports, the average percentage of dues beyond credit period was 49.68 *per cent* for the period 2012-13 to 2014-15.
- In the case of GBD, the payments were received after credit period of 90 days and HLL thus, had to bear the loss of interest on delayed payments. The payments were made only after certification of delivery at the receiving locations which

involved long processing time due to administrative clearances and procedural formalities.

From the above, it could be seen that the dues beyond credit period were not brought down during 2012-13 to 2014-15 which indicates that the recovery system in HLL was not effective.

The Management stated that HLL was having a robust SAP based Dynamic Credit Control System (DCCS).

The reply is not acceptable, as DCCS is activated for all customers except Govt. Department/Institution and out of dues relating to CBD and WHD 96.75 *per cent* dues pertained to Govt. Department/Institution, thus making the DCCS of limited use. This delayed collection of credit sales adversely affected the working capital position of HLL.

8.1.2.4 Heavy discounts without commensurate increase in consumer sales

In order to increase its turnover HLL offered both cash and quantity discount to its clients. Cash discount at two *per cent* on invoice value was given at the time of cash sale and quantity discount was given, both for cash and credit sales. On a test check of sales with quantity discount in 2014-15, audit observed that in respect of thirteen (13) products, though the quantity discount ranged from 19.81 *per cent* to a high of 300.88[1] *per cent*, HLL still lost sales volume. The decline in sales volume was particularly steep in the following products:

Sl. No.	Particulars	Sales unit	2012-13	2013-14	2014-15
			Quantity sold	**Quantity sold**	**Quantity sold**
1.	Moods Ultrathin 3'S	Wallet	823537	27469	7802
2.	HILCAL 500	Strip	168539	155779	73991
3.	HILZOL	Strip	89830	31864	400
4.	P-DRIVE S	Strip	26105	22256	162

HLL sells its products, with varying prices at varying levels of profitability. A scrutiny of records revealed that the prices were fixed and revised several times in a year. Though, the Chairman & Managing Director advised the Price Fixation Committee to resort to price revision either at the beginning of the calendar year or financial year as it will have an impact on the market, no corrective action was taken. HLL continued its operations without having a documented pricing policy to facilitate fixation/periodical review of prices.

Audit noticed that according to the latest available Cost Audit Report, there was negative margin to HLL during 2012-13 on supplies to the Government of condoms (₹ 2.66 crore), sanitary napkins (₹ 2.36 crore) and pregnancy test kits (₹ 1.88 crore). This was on account of increase in input costs. Though, HLL had taken up the issue with the Ministry/Tariff Commission for review and fixation of fair price, no revision was effected during the last one to two years. This led to HLL incurring recurring losses on orders received from the Government.

[1] ***Discount on order placed with extra quantity offered.***

Management agreed to the audit observation and added that the negative margin on the supplies to the Government was due to non revision of prices by the Ministry/Tariff commission inspite of repeated reminders by HLL to fix fair price for the years 2012-13 to 2014-15.

The Ministry (March, 2016) stated that discounts were offered as per the practice followed for similar products by their competitors. In a few situations, there is a requirement of offering more quantity discounts, in order to liquidate the inventory whose shelf life is nearing expiry or where the competitor becomes suddenly aggressive in pushing their product. Thus, discounts are offered to win over competition and to maintain company's position in the market.

The Management contention is not acceptable as even the high discount allowed could not improve sales of the products, therefore, the policy needs to be reviewed.

8.1.2.5 Deficiencies in monitoring of channels of distribution for supply of products

HLL established four Regional Offices[1] and fourteen stock points across India for delivery of products. The materials were dispatched from manufacturing units to these stock points for onward movement to the channel partners.

The test-check of the performance of the distributors/stockists for the years 2012-13 to 2014-15 revealed the following deficiencies:

Though HLL had eleven Carrying and Forwarding Agent (CFA) and five depots (2014-15) across the country but it conducted only *seven* surprise visits during the three year period from 2012-13 to 2014-15 and in all the cases, shortages were noticed with batch variation. The visits were made only when problems were reported and as a general procedure, verifications were not made.

Audit noticed that M/s. S.S. Logistics was working as CFA in Zirakpur, Punjab and Punchkula, Haryana for supply of products in Chandigarh, Haryana and Punjab. HLL had to terminate the arrangement (July 2013) due to theft of stock, non-reconciliation of sales and stock figures, non-filing of service tax and pending VAT assessment. HLL had no provision or clause in the manual/operating practices prescribing the number of surprise checks to be undertaken by the logistics department to ensure the safety and security of the products. Also, surprise visits/checks made by the logistics department were not documented in the form of a verification/inspection report and submitted to the top management. This was indicative of poor and ineffective supervision of depot operations especially when consumer products were stored and dealt with.

The Management stated that it was ensured to make one surprise visit per warehouse per year. The reply is not acceptable as the Management had not evolved any mechanism to prescribe the number of surprise checks in the operating practices and to document the result of surprise checks.

[1] ***Mumbai, Kolkata, Bengaluru and Noida.***

8.1.3 Debtors' Management

8.1.3.1 Debtors' and Turnover

The trade receivables outstanding as on 31 March 2015 stood at ₹ 622.61 crore of which sum of ₹304.35 crore pertained to the five Divisions viz., CBD, HCD, WHD, IBD and GBD. The details of turnover and the debtors' position in respect of various divisions for the three years ended 31 March 2015 was as below:

(₹ in crore)

Year	CBD	HCD	WHD	IBD	GBD
2012-13: Turnover	59.14	42.50	133.51	126.96	269.07
Debtors Percentage to Turnover	16.06 (27.16)	23.87 (56.16)	53.10 (39.77)	67.49 (53.16)	2.45 (0.91)
2013-14: Turnover	65.51	53.57	110.05	133.11	252.55
Debtors Percentage to Turnover	14.65 (22.36)	12.46 (23.26)	64.03 (58.18)	54.05 (40.61)	0.65 (0.26)
2014-15: Turnover	79.93	73.64	117.37	155.58	320.89
Debtors Percentage to Turnover	22.47 (28.11)	29.89 (40.59)	65.76 (56.03)	79.63 (51.18)	106.60 (33.22)

It can be seen from the table above that debtors (excluding GBD) ranged from 22.36 *per cent* to 58.18 *per cent* and almost all the marketing divisions had an unhealthy position in the year 2014-15. This adversely affected the funds management position and hampered the working capital cycle.

In both, CBD and HCD, the outstanding debtors for a period exceeding three years ranged from 10.45 *percent* to 28.44 *percent* during the three years ended 31 March 2015.

The position of provisions made in respect of doubtful debts during 2012-13 to 2014-15 was as follows:

(₹ in crore)

Year/Division	2012-13	2013-14	2014-15
Consumer Business Division	4.96	3.12	2.75
Hi-Care Division	3.05	3.57	3.26
Women Health Care Division	1.81	0.92	1.47
International Business Division	0.04	0.51	0.29
Total	**9.86**	**8.12**	**7.77**

Audit analysis revealed that though the amount of provisions had come down over the years, it was primarily due to the write-off of doubtful debts amounting to ₹3.91 crore during the last three years.

The Management in its reply confirmed write off of its debts and advances.

The Ministry (March 2016) stated that HLL reviews the credit balances of the customers regularly and takes appropriate action in March for those accounts which come under the law of limitation.

The increase in the credit balances in debtors' accounts from ₹ 2.84 crore in 2012-13 to ₹ 7.87 crore in 2014-15 contradicts the Ministry's contention regarding periodical review by the Management. Further, the main credit balances were in the accounts of National

Aids Control Organization- ₹ 1.18 crore and Directorate of Ayush- ₹ 3.99 crore in 2014-15.

(a) Audit further noticed that an amount of ₹ 5.55 crore (February 2016) was still to be recovered due to various reasons such as non-fulfilment of contractual obligations by clients, dishonor of cheques of parties, unclaimed earnest money deposits in respect of failed tenders, refund of wrong payment of service tax, incentives under Focus Market Scheme etc. as given below:

(₹ in crore)

Party/nature	**Amount to be recovered**	**Particulars**
Various parties	1.69	Non-recovery of Earnest Money Deposit on failed tenders
M/s Rama Shipping Services, Bangalore	2.00	Advance paid for purchase of iron ore for export without security.
O/o the Joint Director General, Foreign Trade	0.45	Non-realization of export incentives under Focus Market Scheme as the Organisation could not furnish the Bank Realization Certificates.
M/s Gururaj Associates	0.32	Advance paid on unsold stock of iron ore stock held for exports.
Ten Debtors	0.55	Dishonoured cheques of clients.
M/s/ Qingdao Jianbang International Trading Co. Ltd.	0.45	Non-recovery of 5 *per cent* balance on sale of rejected stock of iron ore exports.
Service Tax Department	0.09	Wrong payment of Service tax refundable by the Service Tax department.
Total	**5.55**	

Non-recovery of the above amounts affected the working capital management in HLL besides loss of interest on blocked funds. It also indicated poor monitoring mechanism for recovery of long term receivables.

The facts stated in the Audit observation were agreed toby the Management.

8.1.3.2 Avoidable additional statutory liability on sales/stock transfer valued at ₹ 3.54 crore due to non-collection/submission of sales tax documents.

Under Central Sales Tax (CST) Act, 1956, registered dealers are eligible for certain concessions and exemptions of tax on inter-state transactions on submission of prescribed declarations in Form C and Form F.

Form C: Under the provisions of the Central Sales Tax (CST) Act, 1956, every dealer who in the course of interstate Trade and Commerce, sells to a registered dealer, goods specified in the certificate of registration of purchasing dealer shall be liable to pay tax at the concessional rate if such sales are supported by declaration in Form C. If the buyer fails to furnish the sales tax concessional forms to the seller, then the sales will be assessed at full rate and tax levied at the full rate of tax.

Form F: Under the provisions of Central Sales Tax Act, 1956, every dealer is required to declare his place of business in other States at the time of seeking registration. Transfer of goods claimed otherwise than by way of sale made by a registered dealer to any other place of his business located outside the State is exempted from tax on production of *Form F.*

Audit noticed that HLL sold goods from its Kanagala (Karnataka) and Manesar (Haryana) factories but did not collect Form C from buyers for sales valued at ₹ 3.32 crore (February 2016). This was indicative of laxity in collection of requisite sales tax forms from buyers resulting in avoidable additional statutory liability on HLL and passing of undue benefit to the buyers. Moreover, HLL moved its goods from Manesar unit to other States during 2013-14 and 2014-15 and Form F for transfer of stock valued at ₹ 0.22 crore (February 2016) remained to be furnished. Evidently, documentation of sales tax records was poor even though HLL has full-fledged Regional Offices responsible for the sales, collection and submission of C and F Forms and Sales tax assessments.

The Management agreed to the facts stated in the audit observation.

8.1.4 Market Competition and improvement in market-share:

8.1.4.1 Market Research

Market research is done by way of planning, collecting and analyzing market data and is important to improve the quality of marketing decision making and attract new customers to increase market share.

Audit noticed that HLL had no formal method of conducting customized market research for product change and development, to combat competition and to plan for improvement in market share.

The CBD subscribed to A C Nielson for their study report, only for MOODS condoms in respect of domestic market. For other products, CBD was entirely dependent on the feed-back from its own agents/distributors on the products. WHD collected market data only for Emily (79 *per cent* market share), Novex (64 *per cent*) and Novex DS (48 *per cent*) brands in 2014 from institutions like All India Organization of Chemists and Druggists (AICOD). For rest of their products, there was no comprehensive data/information available for a proper market research. HCD used market reports for 2013-14 only on surgical sutures. It was noticed that CBD did not collect data for market research related to the other products handled by it.

The International Marketing Division purchased reports on ‘Moods’ condoms, only for Gulf market from AC Nielson for the years 2013 and 2014. In the absence of reports for other marketing countries, on the exported products, HLL could not plan its marketing strategy on export sales.

The Management replied that in respect of WHD, market details of other brands were not provided as they were in the cluttered market segment whereas for HCD which had aexperienced team, and got the market pulse in time. Further, in respect of Export division, due to non availability of Nielson reports, they had to depend on other sources like information from distributors and secondary information from online reports.

The replies of the Management were not acceptable as in respect of WHD, HLL itself had collected and furnished (reply of January 2016) the market details in respect of other products which indicate that collection of market data was possible. Moreover, the market research undertaken by HLL was only in respect of its major products like blood bags, sutures, male condoms and that too, for limited period only. It does not have an organized system for collection of market trends and hence could not plan its marketing strategies to combat competition. This reflected in the stagnant and/or dwindling market share of HLL as brought out in the report.

8.1.4.2 Market share

On review of market share of the HLL products, Audit observed that in the case of 'MOODS', there was an increase in market share from 13 *per cent* in 2011-12 to 14 *per cent* each in 2012-13 and 2013-14. However, the market share of Blood Bags came down to 39 *per cent* in 2014-15from44 *per cent* in2013-14. Audit observed that, HLL lost five *percent* market share in 2014-15 due to delayed delivery schedules, increased cost of production and absence of aggressive marketing strategies. In the case of sutures, HLL's share was a negligible 2 *per cent* in 2013-14. Audit also noticed that as no market reports/vital data on market share, trends and behavior on various other products were available, HLL failed to identify its strengths/weakness in the market and could not effectively plan its marketing strategies to increase its market share.

The Management replied that HLL is major player in the blood transfusion market with consistent market share of more than 35 *per cent* over the years. The reply is not acceptable as it has not addressed the reason for reduction in the market share which is a cause for concern.

8.1.4.3 Dependence on a single buyer

The turnover from the marketing activities of GBD for the three years ended 31 March 2015 was as given below:

(₹ in crore)

Year	Total Sales	Sales from Government business	Percentage
2012-13	648.34	269.07	41.50
2013-14	665.66	252.55	37.94
2014-15	800.62	320.89	40.08

It is evident from the above that share of government business to HLL's marketing turnover ranged from 38 *per cent* to 41.50 *per cent* during the years 2012-13 to 2014-15. The major portion of sales was from the Government supplies and hence dependence on the orders from the Government, to make the production facilities run continuously, could not be ruled out. Though, HLL has undertaken expansion of production facilities in products like condoms, blood bags and sanitary napkins, but the capacity utilization was mainly dependent on government orders to utilize the enhanced capacity.

The Management agreed to the risks of dependency on single buyer and it further added that there was increase of non government sales in 2014-15 over 2012-13. The reply is not acceptable as the increase is due to increase in turnover of HLL and the share of the Non-Government sales has remained the same during the three years.

8.1.4.4 Pending Subsidy claims from Government of India

HLL's products like Nirodh, Mala-D etc. are subsidized by the Government of India and prices were fixed by the Ministry. As HLL sells these products below their cost of production, the subsidy claims were submitted to the Government every year. However, they were released by the Government after considerable delays, extending up to two years. The delay in timely receipt of subsidy claims adversely affected the funds position. Moreover, HLL's profits were affected as the products were accounted at provisional prices due to non-revision of prices of its products controlled by the Government. The subsidy claims of ₹ 9.27 crore (including ₹ 4.80 crore for promotion of products) were pending receipt from the Government of India as on 31 March 2015.

Non-revision of provisional prices was a contributing factor for HLL not achieving the projections and promises made in the Memorandum of Understanding entered into with the Ministry.

The Management accepted and replied that the matter is continuously taken up with the Ministry.

The Ministry (March, 2016) did not elaborate upon the reasons for delay in settlement of subsidy claims.

Conclusion

The marketing activities of HLL, despite various promotional schemes like heavy discounts and relaxed credit failed to create a substantial impact on increasing the market share. Moreover, the market research undertaken by HLL was inadequate and insufficient. HLL was heavily dependent on a single buyer i.e. the Government of India where it faced issues like long pending subsidy claims and supplying products at negative margin. HLL also had substantial outstanding debtors pending recovery which hadadverse impact onits working capital.

8.2 Release of advance payments without obtaining adequate security

HLL Lifecare Limited made advance payments of ₹ 12.04 crore to M/s. Goa Mining Industries (GMI) under a contract for export of iron ore, without obtaining adequate security to protect its financial interests. Subsequently, the export of iron ore was abandoned due to ban on exports of iron ore and the risks involved in transporting large quantities. This resulted in outstanding recoverable from GMI amounting to ₹ 4.92crore on account of principal and ₹ 4.48 crore as interest on principal as on November 2015.

HLL Lifecare Limited (Company) engaged in manufacture of health/life care related products, decided (December 2005) to enter into a new line of business viz. Merchant Exports. The Board of Directors of the Company recommended (September 2006) that Memorandum and Articles of Association may be amended to enable the Company to undertake merchant exports in any goods or classes of goods whatsoever and the same was approved in the 40th Annual General Meeting of the Company held on 29 September 2006.

In the meanwhile, the Company had entered into (June 2006) a Memorandum of Understanding (MoU) with M/s. Goa Mining Industries (GMI) for execution of 60,000 Metric Tonne (MT)(+/-) 10 *per cent*of iron ore export contract at the rate of USD 42.00 per MT. The amount was to be paid in four instalments on receiving confirmation from Kudremukh Iron Ore Company Ltd. (KIOCL), Mangalore that the specified quantity had been unloaded at the nominated plot in KIOCL. Though exports were performed for only 25,047 MTs of iron ore fines by GMItill June 2007, HLL paid to GMI entire contracted amount of ₹ 12.04 crore for 60,000 MTs of iron ore fines between June 2006 and December 2006 in four instalments on confirmations from Quantity & Quality surveyors, appointed by overseas buyer and the co-seller (M/s GMI). In addition, an amount of ₹ 1.73 crore was also paid by HLL to GMI between June 2007 and March 2011 on various grounds. GMI could not export the balance quantity due to continued ban on export of Iron Ore in the States of Karnataka and Goa and offered to supply the iron ore fines from the State of Odisha. The Company declined the offer due to its unwillingness to take any further exposure in iron ore business in view of risks involved in quality of the iron ore fines or transportation of large quantities of the ore. The amount recoverable from GMI as on November 2015 stood at ₹ 4.92 crore on account of principal and ₹ 4.48[1] crore on account of interest on principal outstanding from June 2006 to 30 November 2015.

Audit observed that the Company had entered into such a high-value contract by accepting a single signed cheque from GMI as collateral security without contemplating execution of a bank guarantee or performance guarantee or letter of credit, etc. to safeguard its financial interests. It was also seen in audit that the contract with GMI was entered in June 2006 which was three months before the Company was authorized in its AGM of September 2006 to enter into this new line of business. Thus, this action was *ultra vires* the Memorandum of Association of the Company.

The Management stated (November 2015) that they had to accept the blank signed cheque as financial security as GMI was not agreeable to any enforceable securities. It also stated that the Company before entering into new line of business sought expert legal opinion from a law firm which opined that the MOA authorized the mercantile export business by the Company and it further informed that it was advisable and prudent to amend the object clause to specifically include the proposed business activity also as an object for which the Company was established. Further, the Company made provision for doubtful advances in the accounts for the year 2014-15 as after demise of sole proprietor of GMI in July 2014 the chances of recovery of the outstanding became remote and the Company had initiated legal action (March 2015). Further, as a corrective action it has issued guidelines restricting release of advances without appropriate enforceable security. The Ministry (January 2016) reiterated the management's reply and agreed that the lapses were due to lack of experience of officials in the new area of business.

The fact that iron ore export being a new business and lack of experience in the field made it all the more important that a secure form of financial security instrument such as

[1] ***Since interest rate ranging from six per cent to 10.5 per cent per annum was offered by Public Sector Banks for term deposits during September 2012 to November 2015, therefore, on conservative basis lowest applicable rate of six per cent per annum has been adopted for calculation of interest recoverable.***

a bank guarantee, performance guarantee or a letter of credit, etc. should have been taken. Instead, the Company entered into a high value contract without safeguarding financial interest of the Company which was against prudential business practices. Had the Company obtained proper collateral to safeguard its financial interests, it could have recovered its dues fully.

Thus, due to venturing into a new line of business without any in-house expertise coupled with lack of adequate security to safeguard its financial interest, the Company could not recover ₹ 9.40 crore (Principal ₹ 4.92 crore + Interest ₹ 4.48 crore) from a private party.

CHAPTER IX: MINISTRY OF HEAVY INDUSTRIES AND PUBLIC ENTERPRISES

Bharat Heavy Electricals Limited

9.1 Avoidable payment of compensation

Designing transformers without ascertaining actual operational requirements of the client, coupled with failure to undertake corrective measures resulted in avoidable payment of ₹163.17 crore.

M/s Bharat Heavy Electricals Limited (BHEL) received (May 2003) an order from M/s Zesco Limited, Zambia for supply and installation of 10 numbers of main transformers, rehabilitation of two existing auxiliary transformers and training for their Kafue Gorge Power Station at a contract price of US$ 5.96 million. BHEL supplied and installed the transformers between March 2006 and May 2008. However, subsequent to premature failure of three transformers in 2006 and another one in 2008, M/s Zesco commissioned consultants to undertake "dissolved gas in oil" (DGA) analyses on all the transformers. The consultants concluded (January/February 2009) that the DGA signatures of eight out of 10 transformers were '*unacceptable'* indicating an actual thermal fault or *´suspect'* indicating either the *'the development of a thermal fault*' and/or '*unusual levels of hydrocarbons'* or '*high moisture content and low dielectric strength*'. Accordingly, M/s Zesco served (March 2009) notice to BHEL pursuant to Clause 27.4 of the General Conditions of Contract (GCC) of an overheating defect for the purpose of Clause 27.2 of GCC. Since both the parties failed to resolve the issues, M/s Zesco preferred (May 2012) arbitration against BHEL.

Audit observed that BHEL accepted (September 2009) that it had designed the transformers assuming that both the LV windings would be simultaneously loaded with equal capacity, since there was no mention of single LV loading condition or unequal loading of LV winding by the two generators, and heating of clamp plates seemed to be the reason for high DGA gases in transformers. On the other hand, M/s Zesco opined (November 2009) that the specification might not have mentioned unequal loading, but neither did it mention equal loading. Thus, the assumption made by BHEL was a material one and the same should have been cleared with them before actual design of the transformers.

The Arbitration Tribunal examined the evidence presented to it, heard arguments of both the parties and concluded (December 2014) that BHEL had failed to take prompt remedial action in coordination with M/s Zesco. It concluded that in a period of 16 months since March 2009, BHEL (i) maintained that there was no design defect, (ii) continued to press its proposal to run the transformers on an equal loading basis, and (iii) had failed to produce either the promised R&D department electromagnetic analysis of equal *vs.* unequal loading or the permitted loading unbalances limits, or to produce any reports or undertake any investigations responsive to the series of consultant reports, nor made any other concrete proposal. As such, the arbitration was awarded (December

2014) in favour of M/s Zesco, directing (June 2015) BHEL to pay compensation, which worked out to ₹ 163.17 crore (as of 31 December 2015), towards replacement cost of 10 transformers and other costs related to arbitration.

BHEL stated (November 2015) that the three failures in 2006 outside the active part of transformers were rectified. There was a failure in 2008 due to inadvertent admission of a copper strip during repair work carried out in 2006, and M/s Zesco was sceptical about the quality of transformer and appointed consultant in 2009, while the defects claimed by the customer were suspected and not proved. The Arbitration Tribunal awarded the case against BHEL due to presence of black marks in flitch plates and felt that this was due to inherent design defect, which was a common factor for all the transformers. It was added that as per the opinions taken from the Zambian Law firm and BHEL Counsel at London, option of challenging the award was very bleak and as per the award, BHEL has to pay the dues to M/s Zesco.

The reply is to be viewed against the fact that BHEL had failed to provide corrective measures even within three years of receiving the notice of fault, though it accepted (September 2009) that the transformer was designed assuming that both the LV windings would be simultaneously loaded with equal capacity without ascertaining the actual operational requirements of M/s Zesco.

Thus, designing transformers without ascertaining the actual operational requirements of M/s Zesco assuming that the transformers would be operated on equal loading basis, coupled with failure of BHEL to undertake corrective measures even within three years from the notice of default resulted in avoidable payment of ₹163.17 crore towards compensation.

The matter was reported to the Ministry in January 2016; their reply was awaited (March 2016).

9.2 Avoidable expenditure on payment of sales tax

Failure to include enabling clause in the agreement for reimbursement of taxes for Away Centre Fabrication (ACF) despatches resulted in the Company bearing an avoidable expenditure of ₹ 11.27 crore.

Bharat Heavy Electrical Limited (Company) secured (April 2008) two contracts from Chhattisgarh State Power Generation Company Limited (CSPGCL) for supply of Boiler Turbine Generator, Electricals, Station Control & Instrumentation and mandatory spares for Marwa and Korba West Thermal Power Project for ₹ 1845 crore and ₹ 942 crore (exclusive of all taxes and duties) respectively. Accordingly, the Company entered into an agreement (September 2009) with CSPGCL and allocated ₹ 851 crore to its High Pressure Boiler Plant (Unit) Tiruchirappalli for the supply of 62369 MT of structural and ducting items. These were to be manufactured by Away Centre Fabrication (ACF) vendors using their own material as per drawings of the Company and to be despatched direct to site from ACF vendors.

As per the terms of the agreement and General Conditions of Contract (GCC), 100 *per cent* taxes and duties as applicable on BHEL manufactured items including mandatory spares would be reimbursed by CSPGCL at actuals on production of satisfactory documentary evidence. GCC also stipulated that CSPGCL would reimburse all applicable taxes and duties at actuals in respect of direct transactions between the CSPGCL and the Company. However, the reimbursement of sales tax on the ACF supplies was not covered under the contracts signed with CSPGCL.

The proposal for ACF operations was taken up (January /February 2009) by the company during the stage of Billing Break up (BBU) approval and after receipt of BBU approval, the company started ACF supplies. Initially CSPGCL reimbursed sales tax amounting to ₹ 11.27 crore towards VAT/CST on the ACF supplies (Marwa ₹ 7.14 crore and Korba ₹ 4.13 crore). But later on it recovered (October 2010) the sales taxalready reimbursed citing that reimbursement of Sales tax on ACF items was not in conformity with GCC/agreement.

Audit observed that despite knowing (January 2009) that sales tax on ACF dispatched items were not reimbursable as per GCC, BHEL did not take action for including suitable clause to cover it while entering into agreement with CSPGCL which resulted in payment of avoidable sales tax of ₹ 11.27 crore.

While admitting the audit observation BHEL in its reply stated (August 2015) that the concept of Away Centre Fabrication (ACF) was in nascent stage in 2008, and that proposal for ACF operations was taken up during the stage of Billing Breakup (BBU) approval itself. Further, it would follow up with customer along with Power Sector marketing, New Delhi for realisation of the same.

The reply of the company needs to be viewed in light of the following facts:

- Though the contract was awarded in April 2008 the agreement was signed only in September 2009.
- The company spelt out the specific terms on reimbursement of taxes and duties in the agreement with CGSPCL but failed to incorporate a clause for reimbursement of taxes for ACF despatches to Marwa and Korba Thermal power projects.
- Further, in a similar contract placed (February 2009) with MP Power Generating Company Ltd, BHEL resorted to ACF despatches after obtaining (July 2009) approval from the customer for reimbursement of tax.
- Getting realisation without obtaining amendments to the contract (which at this stage will not be possible) is remote.

Thus, BHEL's failure to include enabling clause in the agreement for reimbursement of taxes for ACF despatches resulted in the Company bearing an avoidable expenditure of ₹ 11.27crore towards payment of sales tax.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

Recommendation:

- ***The company may incorporate suitable clause for recovery/reimbursement of Sales tax for items supplied/manufactured by sub-vendor/ACF unit works.***

9.3 Unfruitful expenditure on procurement of rail wagon

Deficient planning and subsequent non-utilisation of special rail wagon by BHEL resulted in unfruitful expenditure of ₹ 8.07 crore on procurement of the wagon.

Bharat Heavy Electricals Limited – High Pressure Boiler Plant – Tiruchirappalli (Unit) owns a 24 Axle Special Wagon with carrying capacity of 260 Tons (acquired in 1984 at a cost of ₹ 56.04 lakh) designed exclusively for transporting boiler drum from the Trichy Unit to other parts of the country as over-dimensional consignments (ODCs). This wagon was grossly under-utilized as only three boiler drums were transported in 2009-10 and no boiler drum was transported from 2010-11 onwards.

Power Sector Marketing of BHEL (2006) made a business projection for procurement of 300 tons Drum Transportation Railway Wagon under Capacity Augmentation of Boiler shop Phase II at HPBP due to projection of increased numbers of sub-critical boilers and due to unsuitable road infrastructures in India for heavy consignments. The scheme was approved by the Board of Directors on 25.05.2007.

Despite under-utilization of the wagon, under the scheme for Capacity Augmentation of Boiler Shop (Phase-2), the Trichy Unit procured (July 2009) 300 Ton Drum Transportation Railway Wagon from the Company's Jhansi Unit at a cost of ₹ 8.07 crore and the same was commissioned in August 2013.

Audit observed that:

- One of the objectives of the Capacity Augmentation Scheme (Phase-2) was to enhance capability to build higher rating boilers through "Once Through Super Critical Technology" from 800 MW to 1000 MW in which no drum is involved. Thus, the procurement of 300 Ton Drum Transportation Railway Wagon was not need-based.

- The management placed the purchase order for 300 tons drum transportation wagon on BHEL, Jhansi in July 2009 without reassessment of its requirement in the changed scenario of road infrastructure in India.

- Not even a single boiler drum was transported by this wagon so far (August 2014).

BHEL justified the procurement (February 2013) on the ground that prior to 2009-10, the road infrastructure in India was not suitable for transporation of heavy consignments and only mechanical trailers were available in the country. In the mean time, road infrastructure started developing and vehicles with hydraulic axles were introduced and transportation of boiler drums by road was found successful and economical. Further, annual savings of ₹ 86 lakh in hire charges to BHEL would accrue by the use of the drum. BHEL further stated (August 2014) that since all running orders were super critical boilers in which no drum was involved, the 300 Ton Drum Wagon could not be utilized. BHEL reiterated (November 2014) that in the 13th five year plan scenario, where super critical technology was adopted, the utility of special railway wagons for drum transportation has reduced.

The reply is to be viewed against the fact that the procurement order for the wagon was placed in July 2009 based on the business projection made in 2006 without reassessment of the situation prevailing at the time of placement of order.

Thus, defective planning for procurement of wagon resulted in unfruitful expenditure of ₹ 8.07 crore.

The matter was reported to the Ministry in October 2015; their reply was awaited (March 2016).

CHAPTER X: MINISTRY OF HOUSING AND URBAN POVERTY ALLEVIATION

Housing and Urban Development Corporation Limited

10.1 Fund Management and Financing Activities

HUDCO mobilised ₹ 37128.32 crore during 2010-11 to 2014-15, but it suffered from heavy concentration on bank loans, which carried high interest. In assessing fund requirement, critical elements of fund inflow/outflow were not given due cognisance resulting in excess mobilisation and additional interest of ₹30.39 crore. Lower credit rating due to higher NPA and lower net interest margin resulted in higher coupon rate and consequent additional financial burden of ₹134.97 crore was also noticed. In lending operations, amount disbursed ranged between 38.40 and 69.72 *per cent* of loans sanctioned during the five years ended 2014-15. Violations of directions issued by National Housing Bank and deficiencies in internal guidelines affected quality of assets. Deficiencies in appraisal mechanism, system of disbursement, monitoring of financed projects and waiver of critical pre-disbursement conditions led to non-performing assets, which increased from ₹ 1227.60 crore in 2010-11 to ₹ 2029.33 crore in 2014-15 and ranged between 5.46 and 6.76 *per cent*, during the same period.

10.1.1 Introduction

Housing and Urban Development Corporation Limited (HUDCO/Company) was incorporated on 25 April 1970 in order to facilitate housing and infrastructure development in the country with a social thrust on meeting the housing needs of economically weaker sections and low-income groups. It extends financial assistance in three categories, *viz.*, housing[1], housing related infrastructure[2] and otherinfrastructure[3]to the State government agencies, primarycooperativesocieties, individuals, public and privatesector agencies. HUDCO operates under the regulatory oversight of National Housing Bank (NHB). During 2010-11 to 2014-15 HUDCO mobilized ₹ 37128.32 crore, sanctioned loans of ₹ 74950 crore and disbursed ₹ 33111 crore. As at 31 March 2015, the outstanding loans stood at ₹ 32465 crore. Against this backdrop, a need was felt to review in audit the process of fund management and financing activities.

10.1.2 Audit objective and scope

All activities from assessment of fund requirements, its mobilisation and management, lending operations and management of non-performing assets (NPAs) during April 2010

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[1] *All housing projects and composite projects having 50 percent or more components towards housing.*

[2] *Water Supply, Sewerage, Drainage, Sanitation, Solid Waste Management, Educational, Health, Recreational facilities, Community Centres, Bus Stands, Terminals, City Road network including ring roads, bye-passes and transport infrastructure, Metros, Shopping Complex, Markets and such other centres catering to the day to day needs of the residents of the housing colonies and forming part of a housing project, Distribution of Power and other services.*

[3] *Highways, airport, Commercial Malls, Power Generation and Transmission, Telecom, Industrial Infrastructure, Oil and Gas pipelines etc.*

to March 2015 were examined in order to assess whether (i) mobilisation of funds was done after proper planning and was commensurate with business requirements, (ii) due diligence and economies were ensured while borrowing, and utilisation of funds was done effectively and efficiently, (iii) controls relating to appraisal of applications, sanction and disbursement of loans were sound, effective and adequate to cover the associated risks, and (iv) adequate monitoring mechanism existed to ensure timely recovery of dues, initiation of legal action against defaulters and for adherence to directions of the Regulator.

The sample for audit was selected through Interactive Data Extraction and Analysis (IDEA) software based on amount of borrowings, financing and Non Performing Asset (NPA) belonging to both private and public sector. The sample selected for examination in audit contributed 36.78 *per cent* of borrowings, 10.71 *per cent* of financingand of 8.70 *per cent* of NPAsas shown in Table-1.

Table-1: Sample selected in audit

Particulars	Population		Selected in audit		Sample in *per cent*	
	Number of cases	Amount (₹ in crore)	Number of cases	Amount (₹in crore)	Number of cases	Amount (₹in crore)
Borrowings	87	37128.32	32	23155.81	36.78	62.36
Financing	868	33111.02	93	14432.15	10.71	43.59
NPAs	184	2029.33	16	1459.74	8.70	71.94

10.1.3. Audit findings

10.1.3.1 Fund management

(a) Resource mobilisation

The Table-2 below indicates the mobilisation of funds by HUDCO during five years from 2010-11 to 2014-15through the sources of bonds, loans from banks, loans from financial institutions (FIs) and public deposits (PDs).

Table-2: Details of fund mobilisation

Year	Mix of borrowings*(Amount in ₹ crore)*						
	Tax free bonds	Taxable bonds	Loans from banks	Commercial papers	Loans from FIs	Public deposits	Total
2010-11	-	-	4339.00	-	-	464.97	4803.97
2011-12	5000.00	667.40	4146.76[1]	-	250.00	331.79	10395.95
2012-13	2401.35	500.00	2079.37[2]	-	500.00	582.34	6063.06
2013-14	4987.12	700.00	1080.71	-	1000.00	266.78	8034.61
2014-15	-	-	2815.37[3]	2700.00	1700.00	615.36	7830.73
Total	**12388.47**	**1867.40**	**14461.21**	**2700.00**	**3450.00**	**2261.24**	**37128.32**
(per cent)	**33.37**	**5.03**	**38.95**	**7.27**	**9.29**	**6.09**	**100**

Source: *Annual Reports of HUDCO*

[1] ***Including cash credit/overdraft limits of ₹1137.76 crore outstanding as on 31 March 2012.***
[2] ***Represents cash credit/overdraft from banking sector.***
[3] ***Represents cash credit/overdraft from banking sector outstanding as on 31 March 2015.***

From the table, it is evident that HUDCO has mobilised 38.95 *per cent* of funds from high interest bearing source *i.e.*, loan from banks at an average cost of 9.18 *per cent*. While more than 90 *per cent* of fund requirement was met from bank loans in 2010-11, it did not use the potential of low interest bearing sources *like* taxable bonds, commercial papers, loan from FIs in all the years, as the overall fund mobilised from these sources were between 5.03 and 9.29 *per cent.* In all the years, the cost of funds borrowed through bank loans was higher than those from other sources by one to two *per cent*. Thus, HUDCO failed to contemplate initiatives for cost optimisation of mobilised funds so as to offer competitive rates for lending.

HUDCO/Ministry of Housing and Urban Poverty Alleviation (MoHUPA) stated (December 2015/March 2016) that cost of borrowing from banks was lower than corporate bond yields during 2010-11, and bank loans offered much more operational flexibility. In respect of other years, it was stated that though it took loan from banks, it was repaid or foreclosed in the same year itself. However, the fact remains that HUDCO resorted to bank loans during 2010-11 at weighted average rate of interest of 9.18 *per cent* when other organizations[1] of AA+ rating mobilized funds through corporate bonds at the interest rate of 8.35 to 8.95 *per cent* during April to December 2010. HUDCO did not mobilize funds during 2010-11 from any other source, except public deposits (PD) of ₹ 464.97 crore. Further, no guidelines were put in place nor any cost-benefit analysis of various products carried out while mobilizing funds in order to optimize the overall cost of borrowed funds. It is pertinent to note that while the cost of borrowing from taxable bonds and FIs ranged between 6.25 *per cent* and 9.64 *per cent* during 2011-12 to 2013-14, HUDCO resorted to bank loans with cost ranging between 10.22 *per cent* and 10.40 *per cent* during the same period.

(b) Assessment of fund requirement

The resource mobilisation was planned by HUDCO on annual basis through a 'resource plan' approved by Board of Directors (Board). HUDCO assessed requirement of funds for the period 2010-11 to 2014-15 on the basis of (i) targets fixed for disbursement of loans corresponding to targets fixed in MoU with Ministry of Housing and Urban Poverty Alleviation (MoHUPA), (ii) estimated repayment of principal and interest payable on borrowings, (iii) estimated recovery of principal and interest from the loanees, and (iv) estimated principal and interest receivable from investments made. However, audit observed that HUDCO did not consider net cash income (interest receivable *minus* interest payable) from 2011-12 onwards, repayments of PDs, interest receivable on bonds while planning resource mobilisation. There were also mismatches in estimating repayment of borrowings and repayment from investments from 2010-11 to 2014-15 as depicted in Table-3.

[1] ***L&T Infra, TATA Capital, IDBI Bank and Indian Bank***

Table-3: Statement showing excess borrowing

(Amount in ₹ crore)

Year	Net cash income (interest receivable - interest payable)	Mismatch in estimating repayment of borrowings	Repayment of public deposits	Opening bank balances (other than earmarked fund)	Repayments from investment	Interest receivable on bonds	Borrowing requirement after considering (2 to 7)	Actual borrowing without overdraft	Excess borrowing
1	2	3	4	5	6	7	8	9	10=(9-8)
2010-11	-	1144.43	626.87	584.73	-	137	5420.43	4697.23	(-) 723.20
2011-12	1226.65	917.87	1256.85	552.44	-	123.33	6073.30	9258.19	3184.89
2012-13	1037.31	(-) 205.24	-	2603.08	250	107.32	4530.79	3983.69	(-) 547.10
2013-14	834.33	(-) 698.67	-	515.37	-	54.01	6654.25	6719.64	65.39
2014-15	2255.11	1096.59	-	-	400	54.01	7418.05	7445.73	27.68

Thus, there was excess borrowing of ₹ 3184.89 crore in 2011-12 and shortfall of ₹ 723.20 crore and ₹ 547.10 crore in 2010-11 and 2012-13 respectively. The shortfall was met by resorting to overdraft from banks. HUDCO availed average overdraft of ₹ 218 crore, ₹ 1314.97 crore and ₹ 385 crore during 2012-13, 2013-14 and 2014-15 respectively. This resulted in avoidable interest cost of ₹ 30.39 crore.

HUDCO/MoHUPA stated (December 2015/March 2016) that interest receivables has been considered while estimating resource requirement in the resource plan for 2015-16. Excess borrowing in 2011-12 occurred mainly due to mobilising funds through tax-free bonds at the end of financial year and HUDCO had no option but to issue the bonds as it would have otherwise lost the opportunity to mobilise funds through tax-free bonds. It was added that due to volatile interest rate movement, it opted for cash credit/overdraft facility as per actual funds requirement and repaid as and when surplus was generated. On the other hand, if it had issued bonds, it would have committed to a fixed liability for the entire tenor of the bond.

While appreciating the corrective action taken, Audit notes that the reply was silent on why items other than interest receivables as indicated in the table were not considered while estimating fund requirement. The excess borrowing was ascertained on account of not considering some sources of funds, which were known and ascertainable by HUDCO. Therefore, reasons attributed in the reply were not tenable. Moreover, fact remains that though there were excess borrowing, it resorted to cash credit or overdraft facilities entailing additional interest burden, which is indicative of the fact that the resources planning was not done judiciously.

(c) Extra cost of ₹134.97 crore due to lower credit rating

HUDCO has been assigned credit rating of AA^+ for its financial instruments issued during 2011-12 to 2013-14. This was mainly due to presence of high NPAs, concentration of loan portfolio to only 20 borrowers (194 *per cent* of equity capital as of March 2013), lower net interest margin, and significant exposure in vulnerable sectors like energy and real estate. As a result, HUDCO incurred an extra expenditure of ₹ 134.97 crore on issue of tax free and taxable bonds during 2011-12 to 2014-15. In this connection, Audit appreciates that HUDCO was rated as AAA during 2015-16, as it could reduce NPAs from 5.3 *per cent* in 2013-14 to 3.4 *per cent* in 2014-15 in respect of housing loans and increase net interest margin (*i.e.*, difference between average yield of loan and average cost of funds) from 1.59 *per cent* in 2013-14 to 2.21 *per cent* in 2014-15.

HUDCO/MoHUPA stated (December 2015/March 2016) that while there has been constant growth in loan portfolio, consistent efforts to mobilise low cost fund together with constant improvement in operational performance over all the years resulted in getting higher rating for 2015-16. However, reply is to be viewed against the fact that in spite of having been incorporated in 1970 as a premier Government agency, HUDCO could not succeed in obtaining and maintaining higher rating primarily due to higher levels of NPA and poor operational efficiencies in terms of high cost of funds, low net interest margin, etc., which resulted in mobilisation of funds at higher coupon rates.

(d) Fixing higher coupon rate resulted in excess expenditure of ₹12.42 crore

During 2011-12, HUDCO issued taxable bonds Series-B amounting to ₹ 413.90 crore at the rate of interest of 9.75 *per cent* for a tenor of five years through arrangers on private placement basis and the allotment was made on 18 November 2011. In order to ascertain the competitiveness of coupon rate, National Stock Exchange (NSE) data in this regard was examined and it was observed that some institutions had issued bonds at lesser coupon rates around the same time as HUDCO. While one issue (₹ 2500 crore and date of allotment 21 November 2011) related to Indiabulls Housing Finance Limited for a tenor of 3 years having coupon rate of 9.50 *per cent,* another issue (₹ 250 crore and allotment date 15 November 2011) related to L&T Infrastructure Finance Company Limited for a tenor of 5 years with coupon rate of 9.15 *per cent*. It was also noticed that both the institutions were having similar credit rating (AA+) as HUDCO. While similarly rated private institutions mobilized ₹ 250 crore at 9.15 *per cent* approximately at the same time (within a gap of three days), HUDCO mobilized ₹ 413.90 crore at 9.75 *per cent* at comparatively higher coupon rate by 0.60 *per cent* and thereby had to absorb an extra payout of ₹ 12.42 crore (0.60 *per cent* x 5 years x ₹ 413.90 crore) as interest over a period of five years.

HUDCO/MoHUPA stated (December 2015/March 2016) that the issue by private institutions cannot be compared, as the same was allotted with put/call option at the end of 13 months and the period after which put/call option was exercisable was construed as tenor of the bond for pricing by market/investors. The reply, however, is to be viewed against the fact that any issue with put/call option normally carry higher coupon rate, as the option could be exercised by either of the party. Therefore, the private institutions issued bonds with put/call option at a lesser coupon rate than HUDCO.

(e) Engagement of arrangers

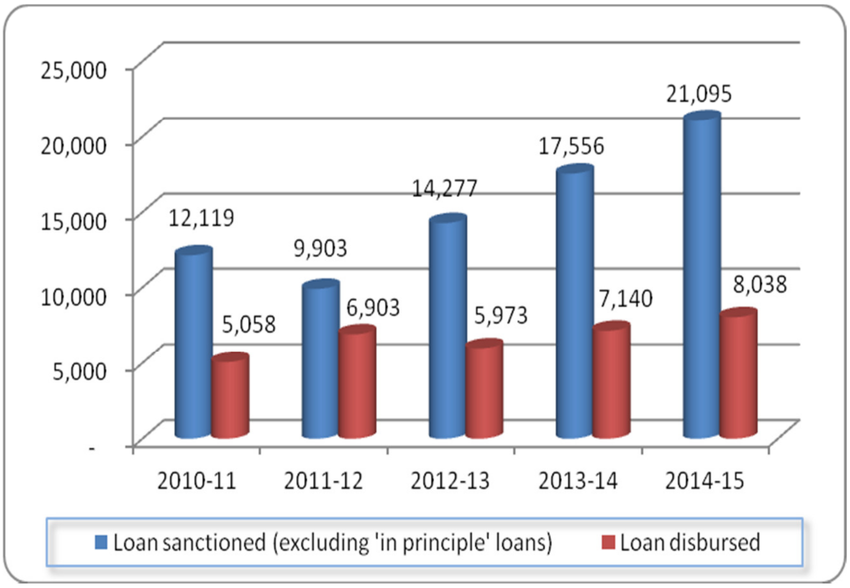
HUDCO had issued taxable bonds on private placement amounting to ₹ 1867.40 crore during the period 2011-12 to 2013-14 at interest rates ranging from 8.14 *per cent* to 9.75 *per cent* using the services of arrangers for fund mobilization while loans of ₹ 7186.84 crore from the banks were mobilised at interest ranging from 10.22 *per cent* to 10.40 *per cent* during the same period. In the two series of bonds valuing ₹928.50 crore during 2011-12 to 2013-14, where the services of arrangers had been availed, the arrangers themselves or their group entities invested ₹563.40 crore (60.68 *per cent*). Conflict of interest is a risk to be managed in an arrangement where the arranger is also the investor.

HUDCO stated (December 2015) that funds by way of private placement were mobilized through arrangers, who submitted firm commitment at offered terms prior to opening of the issue. Further, it was also added that coupon rate arrived at was verified for its competitiveness with reference to benchmark rates and corporate bond yields before the same was finalised. The reply, however, needs to be viewed against the fact that coupon rate was higher by 0.60 *per cent* as referred to in para 3.1.4 above when HUDCO and a private institution issued bonds within a gap of three days.

10.1.3.2 Lending operations

(a) Loan sanctions and disbursements

Details of loan sanctioned and disbursed by HUDCO during the five years ending 31March 2015 are depicted in the Chart below. It can be seen that actual disbursements during 2010-11 to 2014-15 ranged from 38.40 (2014-15) to 69.72 *per cent* (2011-12) of sanctioned loans whereas the corresponding *per cent* ranged in peer institutions like LHFL and HDFC from88.10 *per cent* to 94.62*per cent* and 78.88 *per cent* to 80.25 *per cent* respectively during 2010-11 to 2013-14. Even though the business models of these institutions do not match with HUDCO completely, the percentage of disbursement of HUDCO was comparatively lower. As per information furnished by HUDCO, (i) 18 out of 21 regional offices lost business of ₹ 14019.49 crore during 2010- to 2014-15 due to higher lending rates, while information about three[1] offices was awaited (January 2016), (ii) loan of ₹ 2847.25 crore were automatically closed due to lapse of sanction period and loan of ₹ 3139.32 crore were closed due to non-completion of legal documentation, while reasons for early closure of loan of ₹ 1755.00 crore was awaited (January 2016), and (iii) separate targets were not fixed for housing finance scheme named "HUDCO Niwas". The above indicated that HUDCO did not analyse the reasons for non-availing of loans by parties even after its sanction.



HUDCO/MoHUPA stated (December 2015/March 2016) that in view of time taken for completion of various projects, comparing sanction and disbursement of a particular year

[1] *Bhopal, Dehradun, and Lucknow*

might not provide the right picture. Infrastructure projects get delayed or closed due to various reasons and affects disbursements, and as a matter of policy, it did not disburse funds where a government agency was in default of above 5 *per cent*. In view of these, disbursement of earlier sanctioned schemes got delayed or held up, but it had to continue sanctioning schemes in anticipation of future improvement of recovery and state of finance. Regarding housing loans, majority of portfolio of HDFC and LHFL were in retail housing sector and they sanction a project after completion of all permissions and land acquisitions, and separate targets were not fixed for HUDCO Niwas, since it was not the major focus area.

The reply is to be viewed against the fact that test check of 14 cases[1] has shown that disbursement was completed between one and 28 months in respect of infrastructure funding. Audit has also not included loan sanctioned in principle, *i.e.,* loans which were not disbursed due to election and state/national level policy issues like land acquisition, departmental permissions in availing the disbursement, *etc*. Further, HUDCO could not disburse ₹1917 crore in two[2] regional offices due to default by State agencies. This default constituted only 4.64 *per cent* of amount (₹41839 crore) not disbursed.In comparison with the peers[3] involved in retail housing loans, the performance of HUDCO varied between 18.05 and 30.41 *per cent* of housing loans sanctioned.

(b) Violation of directions of NHB

(i) As per clause 28 and 32 of NHB Directions 2001/2010, housing finance company should not lend to any single borrower in excess of 15 *per cent* of itsnetowned funds (NoF)and to any single group of borrowers in excess of 25 *per cent* of NoF. However, Board of Directors approved (May 2005) exposure limits of 50 *per cent* of NoF for government agencies, while no limit was prescribed for each State government citing that the principle of 'group' would not apply to them. Despite this violation being pointed out in Report No.22 of 2007 of CAG of India and refusal of any concession by NHB in this regard, HUDCO continued to entertain loans beyond the prescribed limits involving an amount of ₹2570 crore as noticed in four out of 93 cases test checked in audit. Meanwhile, NHB acceded to HUDCO's request in April 2011 and allowed 50 *per cent* of NoF to government agencies only for housing and housing related infrastructure and 100 *per cent* of NoF to individual State government. Audit further noticed that HUDCO sanctioned ₹375 crore in July 2011 and ₹300 crore in May 2012 to Uttar Pradesh Power Corporation Limited (UPPCL) despite having an increase in cumulative loss from ₹ 7169.89 crore in 2006-07 to ₹ 26988.75 crore in 2010-11. Due to liquidity problem consequent to non-receipt of grant from State government, UPPCL defaulted in servicing the loan and as a result, the loan became NPA. Similarly, HUDCO released a loan of ₹ 750 crore in 2014-15 to Uttar Pradesh Rural Housing Board (UPRHB) even when it was defaulting (since 1999) on an earlier loan which was backed by government guarantee. HUDCO had failed to recover the amount from the earlier loan even after invoking the government guarantee.

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[1] ***Loan Scheme Numbers: 19713, 19847, 19919, 19945, 19954, 20022, 20067, 20120, 20172, 20171, 20090, 20121, 20051, and 20212.***

[2] ***Jammu and Thiruvananthapuram***

[3] ***LHFL between 88.10 per cent and 94.62 per cent, and HDFC between 78.88 per cent and 80.25 per cent***

The reply that NHB relaxation has been obtained needs to be viewed in light of the fact that Secretary, MoHUPA observed[1] that although the relaxation would enable HUDCO to lend more to government agencies, it would also shift onus to ensure due diligence and careful risk assessment before exposing themselves to single/individual borrowers to this extent. The Secretary further suggested that HUDCO should review its internal norms to ensure that exposure beyond 15 *per cent* was covered by greater internal controls for careful risk assessment and security requirements. However, extending loans to agencies of Uttar Pradesh Government indicated that the suggestion of the Secretary was not given due cognisance.

(ii) As per clause 22(2) of NHB Directions2010, interest/discount or any other charges on NPA shall be adjusted/recognized only when it was actually realized. However, HUDCO adjusted ₹134.07 crore during 2014-15 from loan accounts of M/s RKM Powergen Private Limited and M/s KVK Nilachal Power Private Limited after these accounts became NPAs.

HUDCO stated (December 2015) that necessary changes in the procedures/guidelines were being done to prevent such occurrence in future. MoHUPA stated (March 2016) that HUDCO amended (January 2016) its internal instructions about non adjustment of interest during construction period for accounts which are NPA. Audit appreciates that HUDCO took corrective action in this regard.

(iii) As per NHB Directions 2001/2010, where delay in completion of a project was caused by factors beyond the control of project implementing agency, terms of loan agreement regarding interest and/or principal might be rescheduled once before the completion of project and such loans might be treated as standard asset, subject to the condition that such re-scheduling is permitted only once by Board of Directors and that interest on such loan was paid regularly and there was no default. However, HUDCO introduced (July 2005) internal guidelines not in consonance with the directives of NHB and concessions were granted to parties. Audit noticed 71 deferment cases involving principal default of ₹ 1551.80 crore without the approval of Board, including 22 cases where deferment was allowed twice or more. In addition to this, Board allowed four deferment cases involving principal default of ₹ 287.28 crore,of which one case was allowed twice. On this being pointed by NHB Inspection Team in their report for 2010-11, the guidelines were withdrawn on 27 July 2013.

HUDCO confirmed (December 2015) the audit observation. However, fact remains that the impact of violations still continued and as on 31March 2015, there were 25 cases out of total 75 cases which continued to be in default and out of these 25 default cases, 18 were NPA.

(c) Deficiencies in internal guidelines

HUDCO laid down guidelines for appraisal of loan applications received and disbursement thereof. Shortcomings noticed in the control system in this regard are discussed in succeeding sub-paras:

[1] ***Letter dated 4 July 2011 addressed to Director (Finance) HUDCO.***

(i) The guidelines did not indicate any benchmark for debt service coverage ratio (DSCR), breakeven point (BEP), and return on equity (RoE), *etc.* in respect of real estate projects, though the same were prescribed for other loans. HUDCO stated (December 2015) that having one benchmark to judge all projects was impractical. However, absence of this in real estate did not facilitate transparent and judicious selection of projects.

(ii) No system was in place to ensure the veracity of data in project proposals *vis-à-vis* industry norms and financial parameters. HUDCO stated (December 2015) that the appraisal team takes these factors into account. However, this was not the case as seen in the test checked case as discussed in para 10.1.3.2 (e) (vi)

(iii) The internal guidelines did not provide for independent appraisal of application involving consortium lending and depended upon the lead lender's project appraisal/Project Information Memorandum (PIM). HUDCO stated (December 2015) that as it did not have sectoral expertise in areas *like* power, road, *etc.*, it decided to follow the lead lenders. Moreover, it undertook exposure of around 5 *per cent* only of total project cost in individual projects. However, the reply is not tenable as its exposure was more than 5 *per cent* of project cost in five cases[1] test checked in audit and the same ranged between 7.51 and 26.67 *per* cent. MoHUPA stated (March 2016) that there were no guidelines limiting HUDCO's exposure to 5 *per cent* of project cost in case of consortium projects which also confirms that HUDCO was not mitigating its risk through limited exposure of around 5 *per cent* only of the total project cost in the individual projects. The fact, therefore, remains that only independent appraisal of proposals even in cases of consortium lending could ensure protection of HUDCO's financial interest, as the risk exposure cannot be shared with lead lender.

(d) Recovery and NPAs

Quality of assets is the primary consideration while assessing credit risk by financing institutions, and therefore, level of NPA indicates quality of assets. As per NHB Directions 2010, a loan asset in respect of which interest or instalment remained overdue for 90 days was classified as NPA. As such, higher level of NPA amounts to lower revenue. Table-4 below indicates the age of default and percentage of NPA for the five years ended 31 March 2015.

Table-4: Age of default *vs.* NPA

Age	**2010-11**	**2011-12**	**2012-13**	**2013-14**	**2014-15**
(Months)	**(Amount in ₹crore)**				
0-3	138.05	110.26	200.23	273.76	198.24
3-6	52.38	10.84	393.25	12.41	1.87
6-30	163.94	284.92	539.36	831.03	593.69
Above 30	3412.48	3966.30	3509.01	4171.21	4001.23
Total	**3766.85**	**4372.32**	**4641.85**	**5288.41**	**4795.03**
NPA *(Per cent)*	**5.46**	**6.07**	**5.69**	**6.76**	**6.30**

[1] ***(i) RKM Powergen Private Limited, (ii) KVK Nilachal Power Private Limited, (iii) Himachal Sorang Power Private Limited, (iv) Shree MaheshwarHydel Power Corporation Limited, and (v) Nagarjuna Oil Corporation Limited.***

It is evident from the above that percentage of NPAs to gross outstanding has been above five *per* cent in all the five years with a high of 6.76 *per cent* in 2013-14 and low of 5.46 *per cent* in 2010-11. Though the business model of HDFC and LHFL functioning in the same business segment was different from HUDCO, a comparison revealed that these institutions had much lower levels of NPA, which ranged between 0.40 to 0.70 *per cent* during the same period. Similarly, default of loan above 30 months accounted for 83.45 *per cent* of the total default as on 31 March 2015 indicating a higher risk of recovery.

HUDCO stated (December 2015) that a comparison with HDFC and LHFL does not appear to be justified, as more than 90 *per cent* of its portfolio was bulk loan, while HDFC and LHFL were majorly retail lending institutions. Further, HUDCO was also operating in infrastructure sector like power, road, transport, *etc.* and during the period under review this sector has been suffering due to policy and regulatory issues and even PSU banks and FIs have posted higher NPAs in these sectors.

The reply is to be viewed against the fact that the comparison was made to highlight the magnitude of NPA *vis-a-vis* other Public Financing Institutions. The alarming position of NPA can further be corroborated with the fact that the NPA of IIFCL and IDFC (institutions engaged in financing of infrastructure projects) during 2012-13 to 2014-15 ranged between 0.94 and 3.79 *per cent* in case of IIFCL, and 0.15 and 0.70 *per cent* in case of IDFC, while the same for HUDCO was 5.68 and 7.53 *per cent*. In respect of loans in housing sector, where a comparison with HDFC and LHFL was justifiable, as against NPA between 3.40 and 9.50 *per cent* of HUDCO during 2011-11 to 2014-15, it ranged between 0.5 to 0.8 *per cent* for HDFC and LHFL in the same period.

(e) Illustrative cases of default and NPAs

Audit observed instances of deficient appraisal of loan applications and pre-disbursement system, lack of benchmarks, deficient monitoring mechanism to ensure utilisation of loan and exposure in excess of ceiling fixed and other deficiencies noticed in the internal guidelines coupled with violations of NHB Directions. Resultantly, the projects, otherwise not eligible for financing, had been financed or greater exposure had been taken, leading to NPAs or to legal issues as discussed below:

(i) M/s RKM Powergen Private Limited

Two loans of ₹ 200 crore and ₹ 300 crore were sanctioned (March 2008 and May 2010) to M/s RKM PowergenPvt. Ltd under consortium lending for a power project (Phase I and II) to be implemented by September 2010 and November 2012 respectively. Audit observed lapses in sanction of loan *like*(i) DSCR[1] being decreased from 4.39 to 0.70 as against 1.5 based on REC guidelines and (ii) non adherence to lending cap of up to five *per cent* of project cost. Further, ₹ 493.34 crorewas disbursed during August 2009 to February 2015 relaxing essential pre disbursement conditions of signing Fuel Supply Agreement (FSA) along with coal linkage and Power Purchase Agreement (PPA) by August 2010. Due to delay in implementation, project cost has escalated (February 2015) to ₹ 2389.18 crore and ₹ 7988.15 crore from ₹ 1487 crore and ₹ 5166.11 crore for Phase

[1] ***DSCR denotes repayment capacity of the borrower. Higher ratio denotes better repayment capacity of the borrower and consequently safety of the repayment of principal and interest.***

I and II respectively, and the project is yet to become operational (January 2016). Meanwhile, the loan with an outstanding amount of ₹482.57 crore became NPA in July 2014.

HUDCO/ MoHUPA stated (December 2015/ March 2016) that the loan was sanctioned on the strength of financial viability as appraised by the lead lender and not merely on the financial health of promoter. Coal linkage was signed with SECL on 23 September 2013 and PPA for 490 MW with Chhattisgarh State Electricity Board (CSEB) had been signed and expression of interest for supply of 350 MW to UPPCL, Telangana and Andhra Pradesh had been received and the PPAs would be signed after obtaining bank guarantee. The reply confirms that the crucial pre-disbursement conditions were fully not adhered to by the borrower, while HUDCO had disbursed more than 98 *per cent* of the loan and absence of independent appraisal of loan application and dependence on lead lender has eventually exposed HUDCO to risky portfolio. Apart from this, lead lender appraised in its Investment Memorandum that CSEB may not procure the power under the executed PPA due to cost overrun.

MoHUPA further stated (March 2016) that FSA and PPA were required to be in place at the time of the project achieving commercial operational date (COD).

Reply of MoHUPA is to be viewed against the fact that this project is not able to generate the electricity in absence of FSA and PPA after achieving COD.

(ii) M/s KVK Nilachal Power Private Limited

HUDCOsanctioned (23 July 2007) a term loan of ₹360 crore to M/s KVK Nilachal Power Private Limited for setting up a power plant at ₹1350 crore. Audit noticed that (i) annual contribution ₹0.06 *per unit* of energy to Environment Management Fund (EMF) was not considered while estimating profit resulting in overestimation of profit between ₹ 8.45 crore and ₹11.27 crore *per annum*, which impacted repaying capacity of the borrower, (ii) pre-disbursement condition of promoters bringing in equity contribution of ₹270 crore and finalising FSA and PPA were relaxed, (iii) promoters failed to bring in additional contribution of ₹354.56 crore towards cost escalation, (iv) HUDCO extended (27 May 2011) buyers' line of credit (BLC) of ₹94.53 crore to UCO Bank to facilitate the borrower to purchase equipment without adhering to pre-disbursement conditions, and (v) lending cap of up to 5 *per cent* of project cost was not adhered to. The project could not be completed, and as a result project cost escalated to ₹2768.25 crore and implementation schedule got delayed from January 2010 to December 2016. Meanwhile, loan became NPA in October 2014 with an outstanding amount of ₹348.71 crore.

HUDCO/ MoHUPA stated (December 2015/ March 2016) that since the project was funded on consortium basis, no detailed appraisal was carried out and it relied on the Project Information Memorandum of the lead lender. Even after considering the transfer to Environment Management Fund, project profitability was positive and would not have affected the funding. It added that promoters had contributed equity of ₹243.20 crore against the envisaged equity of ₹270 crore. MoHUPA further stated that buyers' line of credit was extended to UCO Bank on terms of common loan agreement. The reply, however, needs to be viewed against the fact that though there was shortfall in bringing in additional equity, the additional contribution towards cost escalation was not even brought in. Non consideration of EMF adversely impacted cash flow of borrower which in return impacted recovery of loan. In order to safe guard its interest, Management was required to ensure compliance with its disbursement conditions. The reply that the time for finalising FSA and PPA were extended up to April 2012 confirms that pre-disbursement conditions were unduly relaxed, which eventually led the loan account to become NPA.

(iii) M/s Himachal Sorang Power Private Limited

A loan of ₹ 100 crore was sanctioned (March 2007) to M/s Himachal Sorang Power Private Limited for setting up of a power project at ₹ 580 crore. The loan had been disbursed during August 2007 to July 2010, while the project was to be implemented by March 2010. Audit observed that (i) requirement of having a PPA within 12 months from the first disbursement was relaxed, (ii) the requirement for assigning rights of forest lease hold land as well as pledging of 51 *per cent* of borrower's share capital was waived, and (iii) lending cap of up to five *per cent* of project cost was also not adhered to. Further, there was time overrun of more than 5 years and cost overrun of ₹ 673.90 crore (116.19 *per cent*). As a result, there was dilution in security available to HUDCO, though the project was in operation since 31 October 2015.

In their reply (December 2015), HUDCO maintained that the loan was sanctioned under consortium and no independent appraisal was made by it, and relaxation for assigning forest land was made in line with lead lender, while additional one *per cent* interest was levied for relaxation to assigning shares. However, the fact remains that approving projects and relaxing pre-disbursement conditions in line with lead lender cannot be considered as prudent, as every lender has to sanction and disburse loan based on an independent evaluation of risk *vis-a-vis* their acceptable benchmarks.

Apart from HUDCO's reply, MoHUPA stated (March 2016) that there was no guideline limiting HUDCO's exposure to 5 *per cent* of project cost in case of consortium projects.

The reply is to be viewed against the fact that HUDCO had claimed (December 2015) that it limited its exposure to the extent of 5 *per cent* only of the total project cost in case of consortium funding.

(iv) M/s Electosteel Steels Limited

HUDCO accorded (March 2007) '*in principle*' approval for a loan of ₹ 300 crore to M/s Electosteel Steels Limited for setting up of a steel plant based on PIM prepared by IL&FS Financial Services Limited (IFIN) as principal advisor to the project. The loan was sanctioned on 14 June 2007 for ₹ 295 crore after receipt of a letter from SBI agreeing to take up the role of lead lender based on PIM prepared by IFIN. As per the practice in vogue, no appraisal was required for a loan under consortium, provided the project had been appraised by lead lender. Audit, however, found nothing on record that indicated that the lead lender had appraised the project.

HUDCO/ MoHUPA confirmed (December 2015/ March 2016) the above and added that it followed the wisdom of lead lender who had expertise in the field of industrial financing. However, fact remains that no record was found that could suggest that the project was appraised by SBI.

(v) M/s Pipavav Defence and Offshore Engineering Company Limited

HUDCO sanctioned (May 2005) a loan of ₹ 271 crore to M/s Pipavav Defence and Offshore Engineering Company Limited. The loan became NPA in February 2014 and the outstanding principal and interest stood at ₹ 92.75 crore and ₹ 14.66 crore respectively as on 31 March 2015. Clause 15 of loan agreement (September 2005) provided HUDCO a right to convert their exposure, in part or fully, together with interest and other charges thereon into equity shares of the borrower company at a price of minimum face value or prevailing market price, whichever is less. Further, the pre-disbursement condition of the loan required the borrower to obtain requisite approvals from its shareholders through a special resolution and furnish the same to HUDCO. Moreover, loan to the borrower was neither covered under the main objective of HUDCO nor under the categories approved by Board in March 2012. No recorded reasons for sanctioning the sanction of loan to an ineligible sector were found in audit.

HUDCO stated (February 2016) that since the loan was provided for development of infrastructure of the shipyard, it falls within the purview of main objective. The reply is not tenable as it belonged neither to housing nor to the urban infrastructure.

MoHUPA stated (March 2016) that the matter is under follow up with the agency for conversion of HUDCO's loan into equity. Audit appreciates MoHUPA's intention in taking corrective measures.

(vi) M/s Vikat Hotels Private Limited

HUDCO sanctioned (April 2007) a loan of ₹ 20.80 crore to M/s Vikat Hotels Private Limited for construction of a hotel in Bangalore. Audit observed that the loan was processed based on a project report provided by the borrower and no independent assessment was done to ensure the veracity of projections of occupancy rate and operation cost made therein. The loan was sanctioned taking occupancy rate of 75 to 91 *per cent* and projected operation cost of 33.73 *per cent* of total earnings before depreciation, interest and taxes. A survey report conducted by Federation of Hotel and Restaurant Associations of India (FHRAI) for the period 2005-06 and 2006-07, however, revealed that occupancy rate of hotels in Bangalore had decreased from 79 *per cent* in 2004-05 to 68 *per cent* in 2006-07 and the same was expected to decrease due to addition of 8000 to 9000 rooms during 2009-10. Moreover, cost of operation was to the extent of 68 *per cent* of total income. Audit also noticed that HUDCO disbursed ₹ 18.48 crore during July 2007 to August 2008 based on Chartered Accountants' certificate/site inspection of regional office. However, as per a report submitted by the regional chief after physical verification, excess disbursement of ₹ 8.36 crore was noticed due to overstatement of expenditure. The loan became NPA in November 2008 with an outstanding of ₹ 56.99 crore as on 31 March 2015.

HUDCO/ MoHUPA stated (December 2015/ March 2016) that details in the project report and supporting demand assessment reports/documents as well as reconnaissance survey details of similar projects were ascertained/analyzed and agency's project reports were also relied upon. Even though the loan was partly utilized, it levied penalty on unutilized amount from the date of release as per provisions of loan agreement. MoHUPA further stated that the study pointed by Audit pertains to the years 2005-06, 2006-07 and 2009-10 of Bangalore city which was reported after sanction of scheme in April 2007. The reply, however, is to be viewed against the fact that data/study from a private firm was obtained only after sanction of the loan while international/national level study was available which revealed significant variation from the data furnished by the borrower. Apart from this, the study report of FHRAI for the period 2005-06 which was published in February 2007 also included prediction for occupancy of rooms during 2006-07 and 2009-10. Further, levy of penalty does not take away the fact that excess amount was disbursed without ensuring real progress of the work or actual amount spent on the project. Further, the reply was silent on the aspect of dilution of security.

(vii) M/s Dreams Consultants Private Limited

HUDCO sanctioned (August 2007) a term loan of ₹ 25 crore to M/s Dreams Consultants Private Limited for construction of Nilai International College at Ranchi and ₹ 16.00 crore was disbursed between November 2007 and March 2009. Despite the project being in operation, the borrower defaulted (May 2009) and the loan became NPA in May 2009, and total outstanding including interest as on 31 March 2015stood as ₹ 42.67 crore. It was observed that the borrower transferred the mortgaged property to Nilai Educational Trust in which the borrower was also a trustee without informing or seeking permission from HUDCO, and the same came to the notice of HUDCO only in April 2009. Subsequently, a cancellation deed (May 2009) registered with District Sub Registrar was submitted to HUDCO with an explanation that the land was inadvertently transferred. The legal wing of HUDCO treated this as an act of fraud and suggested (June 2009) recall of the entire loan along with other dues and to take legal action. Accordingly, HUDCO recalled (5 May 2010) the entire loan together with interest and other monies as payable through legal notice, while criminal case was filed only in March 2015.

HUDCO/ MoHUPA stated (December 2015/ March 2016) that legal action was taken in May 2010 when the recall notice was issued, and to recover the outstanding amount, it invoked personal and corporate guarantee (24 May 2010) and bank guarantee (8 June 2010) of ₹ 25 lakh and process of filing a criminal case for fraud and breach of trust has been started. However, the fact remains that it took action as recommended by legal department in May 2010, while such action should have been taken after two quarters of persistent default since May 2009. Moreover, though it was termed (June 2009) as a case of intentional fraud, criminal case was filed only in March 2015.

(viii) M/s Sunil Ispat and Power Limited

HUDCO sanctioned a loan of ₹ 24.50 crore in March 2006 to M/s Sunil Ispat and Power Limited for construction of a captive power plant (CPP) as part of a proposed mini integrated steel plant under a consortium arrangement. As per norms in vogue, after first disbursal, subsequent releases were to be made after site inspection. HUDCO, however, failed to monitor utilization of loan, as borrower diverted the loan, while its officers from regional office at Raipur periodically furnished satisfactory reports and recommended further disbursements, and also endorsed false reports of lenders' engineer and Chartered Accountant. Meanwhile, it emerged (November 2008) in a consortium meeting that work had not been started for CPP. Despite likely fraud coming to notice, legal action was initiated only after lapse of more than 3 years in May 2012. The loan became NPA in May 2009, and the total outstanding stood at ₹ 75.59 crore as on 31 March 2015. Further, the realisable value of assets was assessed between ₹ 22.85 crore and ₹ 30 crore against outstanding amount of ₹ 144.14 crore to the consortium. Therefore, sufficient tangible security to recover this loan does not exist. It was also noticed that this loan has been picked by Corporate Vigilance Wing and Central Bureau of Investigation for investigation in February 2013.

HUDCO/ MoHUPA accepted (December 2015/ March 2016) that monitoring of the project failed and borrower was successful in diverting the loan as it largely depended on reports of lenders' engineer/auditor, who furnished false report and no adverse report was furnished even by its officials. As no consortium documents were executed, it was decided to file suit separately as accepted by all the lenders, and accordingly action was initiated. The reply, however, is to be viewed against the fact that HUDCO did not ensure that a common loan agreement was executed though the loan was under consortium, and failure on the part of lenders' engineer does not take away its responsibility of monitoring the progress of work. Further, it took three years to initiate legal action against the borrower while internal guidelines stipulated action after expiry of one quarter of loan becoming NPA. Moreover, the reply was silent on the action taken or proposed to be taken against its officers who furnished or endorsed false reports, based on which disbursements were made.

(ix) M/s Shree Maheshwar Hydel Power Corporation Limited

HUDCO disbursed a loan of ₹259.00 crore to M/s Shree MaheshwarHydel Power Corporation Limited for a power project under a consortium. While approving the loan, Board directed that release of loan instalments be made after the promoter brought in additional equity and acquired entire land including land for rehabilitation and resettlement (R&R) of affected villages. However, these were relaxed and loan was disbursed between June 2007 and January 2010. Meanwhile, borrower defaulted in servicing the loan from January 2011 and project activities were held up since March 2013. It is pertinent to note that estimated project cost and expected tariff from it has increased steadily from ₹ 736 crore and ₹ 2.76 *per unit* (1993) respectively to ₹ 2449 crore and ₹ 5.32 *per unit* (2006) and to ₹ 6793 crore and ₹ 13 *per unit* (2015) making the future of the project and recovery of loan uncertain, as Madhya Pradesh Power Management Company Limited refused to purchase at tariff beyond ₹ 5.32 *per unit*. A high level committee constituted (September 2014) to suggest the way forward for the project though recommended (May 2015) three measures, two of which did not materialise leaving only the third option of exiting of Madhya Pradesh government and its agencies from the project and managing it by lenders, a credible and clear roadmap for which is yet (December 2015) to be finalised. The loan became NPA in April 2011 with an outstanding amount of ₹ 490.29 crore as of March 2015.

HUDCO stated (December 2015) that promoters agreed to contribute additional equity and the existing lenders agreed to restructure their loan to make the project economically viable. It is to be noted that the loan account is under NPA in the books of all lenders because of non-infusion of fund by the promoters. Further, Board authorised the management to relax pre-disbursement conditions in line with the lead lender.

The reply needs to be viewed against the fact that while sanctioning the loan, HUDCO was aware that the project was delayed due to inability of promoters to bring in required funds, and was defaulting in servicing of existing loan, and therefore, relaxation of pre-disbursement conditions was not judicious.

MoHUPA stated (March 2016) that there is a proposal to invoke the pledged shares of the company thereby taking control of the project for completion and revenue generation.

Reply is to be viewed in light of the refusal by MP Power Management Company Ltd. (erstwhile MPSEB) to purchase the power at the tariff exceeding ₹ 5.32 *per unit*.

(x) M/s Ascot Hotel and Resort Limited

HUDCO sanctioned (June 2006) a loan of ₹ 80 crore to M/s Ascot Hotel and Resort Limited for construction of club-cum-banquet hall at Noida. Audit observed that the loan was sanctioned without ensuring adequate net-worth of promoters and accepted pledge of a property valued at ₹ 12 crore against promoters' share of ₹ 22.73 crore in borrowing company (51 *per cent* of total equity), resulting in inadequate security to the extent of ₹ 10.73 crore. The loan became NPA in February 2012 and the total outstanding stood at ₹100.84 crore as on 31 March 2015.

HUDCO/ MoHUPA stated (December 2015/ March 2016) that it accepted the mortgage of property in lieu of shares after approval of competent authority and that the total value of security was well beyond 150 *per cent.* Further, the shares were already pledged to other FIs and the promoters proposed initial public offer (IPO) of their shares. The fact, however,remainsthat acceptance of the alternate security was inadequate and resulted in dilution of security available to HUDCO.

Conclusion

HUDCO mobilised ₹ 37128.32 crore during 2010-11 to 2014-15, but the mobilization was not judicious, on account of higher proportion of bank loans, which carried interest rates higher than those for funds from other sources by one to two *per cent*. Assessment of requirement of fund was not made based on laid down policy or framework, and certain elements of fund inflow/outflow were not given due consideration resulting in excess mobilisation of ₹ 3277.96 crore and additional interest burden of ₹ 30.39 crore. Incidence of extra expenditure of ₹ 147.39 crore was also noticed due to lower credit rating and fixing of higher coupon rate. The exclusive dependence on arrangers for fund mobilisation instead of developing own capabilities with attendant benefits of reduced coupon and lending rate exposed HUDCO to possible risk of higher coupon rate arising from possible conflict of interest.

In lending operations, the amount disbursed ranged between 38.40 and 69.72 *per cent* of loans sanctioned during five years ended 2014-15. Audit examination revealed non compliance with directions issued by National Housing Bank, the Regulator. Deficiencies in internal guidelines also affected the quality of assets. Deficiencies in existing appraisal mechanism, system of disbursement, monitoring of financed projects and waiver of critical pre-disbursement conditions led to considerable loan accounts turning into non performing assets, which were in the range of 5.46 to 6.76 *per cent* during the five year period. In monetary terms, the amount in default increased from ₹ 3766.86 crore in 2010-11 to ₹ 4795.05 crore in 2014-15, while NPA increased from ₹ 1227.60 crore to ₹ 2029.33 crore during the same period.

Recommendations

Audit makes the following recommendations to address the shortcomings noticed and to improve the operations of HUDCO.

- ***Strengthen the procedure for assessment of requirement of funds;***
- ***Ensure that mobilisation of funds is carried out in an economical, efficient and effective manner through judicious selection of financial instruments, increasing the investor base and developing own mechanism to mobilise resources so as to optimise cost and return;***
- ***Independently evaluate loans granted under consortium lending and validate assumptions and projections furnished by borrowers or lending partners;***
- ***Examine the need for prescribing financial benchmarks for financing real estate and consortium funding; and***
- ***Strengthen the monitoring system to ensure proper utilisation of funds by borrowing institutions.***

HUDCO/ MoHUPA stated (December 2015/ March 2016) that the review and strengthening is an ongoing process which is being done regularly and all out efforts to improve on the above aspects shall be undertaken.

CHAPTER XI: MINISTRY OF POWER

Damodar Valley Corporation

11.1 Loss due to delay in lodging of claims with Railways

The Corporation suffered a loss of ₹ 5.24 crore due to delay in lodging claims with the Railways for undelivered coal wagons.

Damodar Valley Corporation (Corporation) is engaged in generation and distribution of power mainly through its coal based Thermal Power Stations (TPS). The Corporation procures coal from Government Companies under a fuel supply agreement. Coal is transported to the respective TPS either by road or by rail. Railways on acceptance of goods, issue a Railway Receipt (RR) which is evidence of weight and number of packages therein. The consignment is delivered on surrender of such RR. Railways are responsible for loss, damage or non-delivery of consignment arising from any cause except force majeure clause. However, as per provisions of section 106 (1) of the Railways Act 1989 (RA), any claim for compensation against Railways for the loss or non-delivery of goods would not be entertained unless a notice is served to railways within a period of six months from the date of entrustment of the goods. In case, Railways do not settle any claim within a period of three months, an application may be filed against them before the Railway Claims Tribunal (RCT) within a period of three years from the date of entrustment of the consignment.

Audit observed that during the period from July 2010 to December 2010, Mejia Thermal Power Station (MTPS) of the Corporation did not receive 303 number of wagons containing coal valued at ₹ 4.40 crore. Claims for such undelivered wagons were not lodged within the required six months period from the date of issue of RR, as a result of which Railways rejected these claims as per provisions of RA. Similarly, at the Durgapur Thermal Power Station (DTPS), Audit observed non-delivery of 58 wagons entrusted to Railways in August 2011 containing coal amounting to ₹ 0.84 crore. While filing (December 2011) claim with the Railways, DTPS gave incorrect RR number against which coal had already been received. As a result, Railways rejected the claim. Later when the Corporation requested (July 2013) for rectification of mistake and re-opening of the case, Railways rejected (August 2013) the claim as time-barred. Audit further observed that the stipulated time (July 2013– August 2014) for filing an appeal against the above rejections relating to both MTPS and DTPS before the RCT had also expired. Thus delay in filing claims resulted in a loss of ₹ 5.24 crore[1] to the Corporation.

Management stated (October 2015) that claims were lodged with Railways through Registered Post within stipulated time frame of six months from the dates of issuance of RR but same were registered/acknowledged by Railways after a lapse of about 15-20 days from the date of receipt at their end, thereby making the claims as time-barred. Management also stated that as per Railways website the claims were still under

[1] ***₹4.40 crore + ₹0.84 crore***

processing, making the matter confusing and misleading to the Corporation and they were considering filing appeal before the RCT. Ministry also endorsed (February 2016) the above views of the management.

Ministry/Management's contention was not tenable because as per provisions of RA, a person was not entitled to a claim for non-delivery of goods carried by Railways unless a notice thereof was served to Railways within a period of six months from the date of entrustment of such goods. In the cases highlighted above, the claims were merely dispatched by the Corporation without ensuring receipt of the same by Railways within the stipulated period. Management's contention on confusion relating to the status of claim was also not tenable as Railways had already communicated about the rejection of these claims. The stipulated time for filing an appeal before the RCT had also expired in respect of these claims leaving no scope for recovery.

Thus, due to delay on the part of management in lodging claims for undelivered coal wagons, the Corporation had to suffer a loss of ₹ 5.24 crore.

Power Finance Corporation Limited

11.2 Wilful negligence leading to sub-standard asset

Decision to relax pre-disbursement conditions, disregarding the provisions of CLA and regularising payment of interest by way of IDC funding against the backdrop of uncertainties surrounding a project, led to risky loan exposure of ₹ 239.36 crore and consequent sub-standard asset.

M/s Power Finance Corporation Limited (the Company) sanctioned (October 2011) a term loan of ₹ 1150 crore to M/s Jas Infrastructure & Power Limited for setting up a 1320 MW thermal power plant at Banka District in Bihar. The project was funded on a debt equity ratio of 80:20 by a consortium of 11 lenders (including the Company) led by Axis Bank. The total project cost was estimated at ₹ 7400 crore comprising senior debt of ₹ 5550 crore, sub debt of ₹ 370 crore and equity of ₹ 1480 crore. The Company, in its part, has made disbursement of ₹ 239.36 crore between February 2013 and February 2015, which included funding of Interest During Construction (IDC) of ₹ 53.54 crore. The project activities were stopped (September 2012) due to failure of the promoters to mobilise funds and institution of an investigation by Central Bureau of Investigation (CBI) against the promoters. Finally, due to non-payment of outstanding dues by the borrower, the loan was classified (October 2015) as sub-standard asset.

Audit observed that the Company disbursed ₹ 185.82 crore towards first disbursement on 28 February 2013, while the loan was sanctioned on 14 October 2011. Between the period of loan sanction and first disbursement, there occurred significant events, which warranted a cautious approach from the Company towards the loan disbursals. However, such an approach was lacking and minimum level of financial prudence and commercial diligence in decision making was not evident. In June 2012, *i.e.,* after eight months of sanctioning loan and about nine months before first disbursement, a CBI investigation was instituted against the promoters of the project for fraudulently obtaining coal block, and an FIR against the promoters was filed on 3 September 2012. The borrower himself admitted that CBI enquiry caused tremendous hardship to mobilize funds through IPO (as envisaged) or by identifying strategic partner(s), which impacted project implementation and in effect, the project was at a standstill since September 2012. The Company went ahead and disbursed ₹ 185.82 crore in February 2013 and further disbursement by way of IDC funding against payment of interest (₹ 53.54 crore) up to February 2015, even relaxing the already fixed pre-disbursement conditions.

The Company stated (June/November 2015) that in private sector loans where it was not the lead lender loans were disbursed on the advice of the respective lead lender, as per the policy of the Company and procedure laid down in Common Loan Agreement (CLA). All the facts regarding CBI investigation were brought to the notice of competent authority before making disbursement and in order to mitigate the risk of de-allocation of coal block and to safeguard interest, additional security conditions were insisted upon. It was further added that as per available records, all disbursements including disbursement against IDC were made after ensuring safeguards and after obtaining approval of competent authority, on compliance with conditions prescribed by lead lender and as per provisions of CLA.

The reply is, however, to be viewed against the fact that though the loan was disbursed to the borrower under consortium, process of loan application, assessing adequacy of security, eligibility of borrower, loan exposure risks, general as well as special terms and conditions, decision regarding loan disbursement, etc. were to be made in accordance with the instant policy and procedure of the lender. Clause 11.2 of CLA provided that the Company should satisfy itself on the fulfilment of pre-disbursement conditions stipulated in CLA *like* clause 11.2.1 (upfront equity of 30 *per cent*), clause 11.2.2 (entire tie up for equity), clause 11.2.6 (coal requirement), and clause 11.2.7 (sale of power, power evacuation, etc.). CLA also empowered the Company in clause 13.15 to withhold disbursement at any point of time, irrespective of whether any disbursement were made by the lead lender or by other lender(s), if in its opinion, there occurred any event that adversely affects the viability of the project. However, these safeguards were ignored and waived, which was unwarranted and not justifiable. Against the backdrop of CBI investigation and uncertainties surrounding the project, the Company's decision to disburse loan came when the project was at a standstill (as of November 2012, physical progress of the project was 28.81 *per cent*, incurring ₹2698.62 crore), and as per available records, the project did not move further (January 2015), thus leaving open scope for diversion of loan disbursal by the promoters. Further, the loan was placed under Standard category by financing IDC relaxing the pre-set conditions and such relaxations were even granted after cancellation of coal block by the Hon'ble Supreme Court of India.

Thus, decision to relax pre-disbursement conditions, disregarding the provisions of CLA and regularising payment of interest by way of IDC funding against the backdrop of uncertainties surrounding a project, led to risky loan exposure of ₹ 239.36 crore and consequent sub-standard asset.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

11.3 Injudicious decision leading to substandard asset

Failure to correctly assess the risks involved in using unsecured loan for project funding and release of disbursements waiving the pre-commitment conditions without matching physical vis-a-vis financial progress resulted in the loan of ₹24.55 crore becoming sub-standard.

M/s. Power Finance Corporation Limited (PFC) sanctioned (April 2012) a term loan of ₹ 26 crore to M/s Swarnajyothi Agrotech & Power Limited for setting up a 10 MW Biomass-cum-Thermal Power Project at Sambalpur district in Odisha. Loan sanction letter, *inter-alia*, contained two sets of conditions, *viz.,* (i) pre-commitment conditions[1] that the balance term loan (₹10.40 crore) was to be tied up with other Financial Institution(s) (FIs) and (ii) pre-disbursement conditions[2] that the upfront equity of ₹ 5.82 crore was to be brought in along with additional amount of ₹ 10.50 crore. The Facility Agreement was signed in October 2012 and ₹ 24.55 crore was disbursed/adjusted between November 2012 and October 2013. However, on account of continued default by the borrower since April 2013, the loan became sub-standard in April 2014.

Audit noted that PFC allowed (October 2012) the borrower to source the balance debt of ₹ 10.40 crore through an unsecured loan as the loan sanction from State Bank of Hyderabad (SBH) for ₹ 10 crore had expired. PFC, despite knowing that the borrower did not comply with the pre-commitment condition of having complete financial tie-up, and without correctly assessing the risk involved in using unsecured loan for project financing, disbursed ₹ 17 crore in November 2012. It may be noted that unsecured loan has inherent risk that has potential to seriously affect project completion. In the instant case, project activities were affected as the borrower had to take another unsecured loan from the EPC Contractor of the project to repay the first unsecured loan. The EPC Contractor also stopped supply of plant and machinery demanding repayment of his unsecured loan. As a result, the project activities stopped in August 2013.

It was also noticed that Rural Electrification Corporation Limited (REC), who was considering a loan application for the project, opined (September 2013) that the progress of the project was not matching with the equity infused and amount disbursed by PFC, and declined to extend loan facility to the project. It was also noticed from the progress report furnished by Lenders' Engineer for the month of February and August 2013 that the progress of the work was unsatisfactory. On the other hand, PFC, without looking into the physical progress *vis-a-vis* financial progress, disbursed/adjusted further amount of ₹ 7.55 crore between March and October 2013. Thus, PFC disbursed loan instalments without giving due cognisance either to the pre-commitment conditions or to the physical progress, which was not justified.

PFC stated (November 2015) that the borrower was in advance stages of tying up the balance loan with Bank/FIs and in order to expedite the financial closure, it had permitted to bring in unsecured loan till sanction of loan from Bank/FIs, after stipulating additional

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[1] ***The obligations of PFC to commit financial assistance shall become effective upon complying with these conditions.***

[2] ***The obligations of PFC to disburse funds sanctioned become effective upon complying with these conditions.***

pre-commitment and pre-disbursement conditions and the financial closure was considered to be achieved after infusion of unsecured loan. It also added that the loan was sanctioned as per policy and disbursement was made after borrower fulfilling all conditions of disbursement. Regarding unsatisfactory progress, PFC stated that delays were not extremely rare especially for power projects, and keeping in view the facts reported by Lenders' Engineer in May and August 2013, it had stopped cash disbursement since then.

The reply is to be viewed against the fact that PFC waived the requirement of financial tie-up and disbursements were made at a time when the borrower was finding it difficult to achieve financial closure consequent to expiry of loan sanction from SBH and denial of loan by other FIs/REC. Thus, it cannot be accepted that the borrower was in advance stages of financial closure and had complied with all the conditions of loan sanction. The decision of PFC to bring in unsecured loan landed the project in deep trouble.

Thus, disbursement of loan in violation of the pre-commitment conditions resulted in the loan of ₹24.55 crore becoming sub-standard and the project being stranded.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

North Eastern Electric Power Corporation Limited

11.4 Loss due to under-recovery of fuel cost

Failure of the management in ensuring accuracy of important data submitted for fixation of tariff result in a loss of ₹ 28.32 crore.

In terms of the Central Electricity Regulatory Commission (CERC) (Terms and Conditions of Tariff) Regulation 2009, tariff for supply of electricity from a thermal generating station for the tariff period 2009-14 would comprise of capacity charges (for recovery of annual fixed cost) and energy charges[1] (for recovery of primary fuel cost).

The CERC had specified the operational norms for the tariff period 2009-14 after considering the actual average based on past performance of the generating stations during 2004-05 to 2006-07. Thus, normative Gross Station Heat Rate (GHR) for a power station was fixed by the CERC based on the operational parameters achieved by different generating stations during the past period.

Based on the above principles, the GHR (kCal/kWh2) for two power plants of North Eastern Electric Power Corporation Limited (company) i.e. Assam Gas Based Power

[1] *The energy charges rate (ECR) in rupees per kWh for gas fuel based station would be calculated as per the following formula*

ECR = GHR x LPPF x 100 /{CVPF x (100-AUX)}, where

GHR = normative gross station heat rate

LPPF = landed price of primary fuel

CVPF = gross calorific value of primary fuel as fired

AUX = auxiliary consumption

[2] *Kilo calorie per kilo watt hour*

Plant (AGBPP) was notified by CERC as 2400 (for combined cycle) and for Agartala Gas Turbine Power Plant (AGTPP) as 3500 (for open cycle). The energy charges for the ensuing period i.e. 2009-14 would have been calculated and recovered from the beneficiaries of the power supplied by the Company on the basis of the above GHR.

It was observed in audit that the company while submitting (April 2008) operational data to the CERC, erroneously furnished 'Weighted Average Net Calorific Values of fuel' as 'Weighted Average Gross Calorific Values of fuel' leading to fixation of GHR by the CERC at lower rates. As a result, the landed cost of fuel had not been fully recovered by the Company under the recovery mechanism prescribed by the CERC for AGBPP and AGTPP in 2009-10 and 2010-11.

After noticing the error, the Company filed a petition (26 May 2011) for revision of heat rate norms with retrospective effect from 01 April 2009, so that the landed cost of fuel would be fully recovered from the beneficiaries. CERC, on examining the submission of the Company and the beneficiaries, revised the normative GHR (kCal/kWh) as 2500 for AGBPP and 3700 for AGTPP prospectively i.e. from the date of filing the petition for revision of tariff (26 May 2011). The CERC, however, did not allow recovering the revised cost of fuel with retrospective effect from 01 April 2009 opining that the Company would not be allowed to take advantage of its own mistake.

It was observed in Audit that due to non-admission of the petition for revision of normative GHR with retrospective effect because of negligence on the part of the management in submission of data to the CERC, an amount of ₹ 28.32 crore could not be recovered towards energy charges from the beneficiaries during the period from 2009-10 to 2011-12 (upto 25 May 2011).

Management stated (December 2015) that the mistake was an oversight and occurred due to non-specific nature of information available at the time of submission of data and not due to negligence. It was contended that the CERC in its wisdom gave effect to the revised SHR[1] from the date of petition on which the Company had no control and the under-recovery may not be termed as loss because the same was not an absolute figure but dependent on the normative SHR fixed by CERC. Management also stated that they had submitted another review petition before the CERC on 23 January 2014 seeking further relaxation of the norms with effect from 01 April 2009 and the same was under process.

Management's contention was not acceptable as ensuring correctness of data which was directly linked to the revenue generation was the basic responsibility of the management. Management's contention that the CERC in its wisdom gave effect for the revised SHR from the date of petition and the under-recovery cannot be termed as loss were not based on facts because management themselves admitted that fuel cost was not fully recovered because of the mistake in submission of information. Further, the Management's petition (23 January 2014) for further revision of tariff retrospectively from 01 April 2009 was also rejected by CERC vide its order dated 05 February 2016.

[1] ***Station heat rate***

Thus, failure of the management in ensuring accuracy of important data submitted for fixation of tariff resulted in a loss of ₹ 28.32 crore to the Company.

The matter was reported to the Ministry in December 2015; their reply was awaited (March 2016).

NTPC Limited

11.5 Renovation and Modernisation of NTPC Power Plants

There was a total delay of three to 109 months in completing activities relating to R&M works in 19 out of 20 schemes selected for audit in nine power stations. Out of 335 contract packages, only 197 contract packages were awarded, 107 of these packages were completed of which 41 were delayed. This led to reduced tariff recovery of ₹ 199.65 crore in four power stations and refund of tariff with interest of ₹ 23.42 crore. Avoidable or extra expenditure of ₹ 47.13 crore, generation loss of ₹ 269.78 crore due to defective systems, excess coal consumption of ₹ 881.89 crore due to poor thermal efficiency, generation loss of ₹ 489.29 crore on account of forced outages and non-adherence to environment norms due to non-completion of projects in time even after their intiation were also noticed.

11.5.1 Introduction

NTPC Limited (NTPC) formulated (May 2002) a Renovation and Modernisation (R&M) Policy with the objective of sustaining improved performance of power plants and to extend their useful life. Accordingly, R&M activities of 18 power stations[1] were planned to be carried out during 2004-19 and ₹8327.40 crore was sanctioned between July 2007 and March 2015 (*except* Anta power station in July 2004). The R&M activities were reviewed in audit in order to assess (i) compliance with R&M policy in conceptualising, awarding and implementing R&M activities, (ii) efficiency, economy and effectiveness in execution of the contracts, (iii) effectiveness of monitoring of R&M activities and (iv) reasons for slippage, if any, in meeting targets affecting operations of power plants.

11.5.2 Scope of audit and sample

Audit selected nine[2] out of 18 power stations where R&M activities were being carried out based on their age, investment approval, expenditure incurred and the need for wider coverage across the country by adopting systematic random sampling through Interactive Data Extraction and Analysis (IDEA) software. Table-1 below indicates details of overall R&M activities and Table-2 indicates R&M activities reviewed in audit:

[1] *Korba STPS, Rihand STPS, Vindhyachal STPS, Kawas GPS, Auraiya GPS, JhanorGandhar GPS, Dadri Gas, Dadri TPS, Anta GPS, Badarpur TPS, Simhadri STPS, TalcherKaniha STPS, Talcher TPS, Ramagundam STPS, Kahalgaon STPS, Singrauli TPS, Farraka TPS and Unchahar TPS*

[2] *Korba STPS, Singrauli STPS, Ramagundam STPS, Farakka STPS, Badarpur TPS, Dadri TPS, Dadri GPS Jhanor-Gandhar GPS and Anta GPS*

Table-1: Overall R&M activities

	Number of power stations	Number of R&M schemes	Investment approval (upto March 2015) (*₹ in crore*)	Budgeted expenditure (April 2007 to March 2015) (*₹in crore*)	Actual expenditure (April 2007 to March 2015) (*₹in crore*)	*Per cent* of actual expenditure to budget (6/5*100)
1	**2**	**3**	**4**	**5**	**6**	**7**
1.	18 (Total)	34 (Total)	8327.40	4281.70	4147.02	96.85
2.	09 (Selected)	20 (Total)	5680.32	2374.32	2209.97	93.08

Table-2 : R&M activities*vis-à-vis* audit coverage

Scheme	Total		Selection in Audit		Percentage of selection	
	No. of schemes	Investment approval (₹in crore)	No. of schemes	Investment approval (₹ in crore)	Schemes	Investment approval
8	**9**	**10**	**11**	**12**	**13**	**14**
Mega life[1]	16	6808.10	13	5194.13	81.25	76.29
Mid life[2]	18	1519.29	7	486.19	38.89	32.00
Total	**34**	**8327.39**	**20**	**5680.32**	**58.82**	**68.21**

A total of 335 contract packages were identified in the selected 20 schemes, out of which 197 packages were awarded upto March 2015. All the 197 packages including 107 (*i.e. 54.31 per cent*) completed upto March 2015 were covered in audit.

NTPC accorded investment approval for ₹ 8327.40 crore for various schemes up to March 2015 and earmarked ₹ 4281.70 crore in budget for carrying out R&M activities from April 2007 to March 2015. The actual expenditure incurred against the budget provision stood at ₹ 4147.02 crore up to March 2015. Though NTPC has spent 96.85 *per cent* of overall budgeted expenditure, the year-wise and station-wise expenditure incurred varied considerably in respect of nine power plants selected in audit. While the year-wise budget utilization was more than 100 *per cent* in three years (2007-08, 2008-09 and 2013-14) and between 80 and 92 *per cent* in three years (2009-10, 2012-13 and 2014-15), the same was as low as 32.31 and 45 *per cent* in 2011-12 and 2010-11 respectively.

11.5.3 Audit findings

11.5.3.1 Delayed implementation of R&M activities

(a) Scheme identification and approval

As per the R&M Policy 2002, R&M activities of power plants were planned under two categories, *viz.,* mid-life and mega-life/life extension schemes. A mid-life scheme was to be initiated when a unit completed 70,000 or 50,000 operating hours in pulverised coal fired power stations and gas/liquid fuel fired power station respectively; R&M work was to be commenced when a unit completed 100,000 or 80,000 operating hours respectively.

[1] ***Mega-life refers to life extension of a plant when it completes 25 yeas or 200,000 operating hours.***

[2] ***Mid-life refers to improvement in operation after a plant completes 70,000 or 50,000 operating hours for coal or gas based stations respectively***

In the case of mega-life/life extensions, R&M schemes were to be initiated after completion of useful life of a unit (*i.e.,* 25 years or 200,000 operating hours for coal based power stations and 15 years or 100,000 operating hours for gas/liquid based power stations). As per the R&M Business Process 2006, implementation of schemes require three to four years and hence, the schemes were required to be initiated on completion of 21 or 11 years for coal and gas based power stations respectively. The R&M Policy 2002 and Business Process 2006 stipulated a total period of 48 months for completion of various R&M activities as indicated in Table-3.

Table-3: Timeline for completion of R&M activities

(In months)

Initiating R&M proposal by PS	Sending proposal to CO by PS	Approval of proposal by ED level EC[1]	Approval by Management	Approval by CEA	Final approval by ED level EC	Investment approval by BoD/ CMD[2]	Awarding and implementation at PS	Total
0	8	8	1	8	1	1	21	48

*(**PS** = Power Station; **CO**=Corporate Office; **ED level EC**= Executive Director level Empowered Committee)*

Audit observed inordinate delay in all the stages of R&M activities from those envisaged in the R&M Policy and Business Process ***(Annexure-II and III)***. In almost all the power stations, schemes were not initiated after completion of specified operating hours of generating units and submitted to the corporate office. While the delay ranged between four to 38 months for initiation, the same ranged between four to 64 months for submission to corporate office. NTPC did not furnish recorded/justifiable reasons for such delays except in case of Badarpur Thermal Power Station (TPS) where it was stated (December 2015) that the delay was due to transfer of ownership of the power plant only in June 2006. However, the fact was that the management of the power plant was transferred to NTPC in April 1978 and the R&M Policy specifically stated that R&M activities were to be initiated in power plants whose management was with NTPC. Delay ranging from six months to 30 months was also noticed in approval of schemes by Executive Director level empowered committee in case of Korba STPS, Dadri TPS, Badarpur TPS, Dadri GPS and Jhanor GPS, which was attributable to revision of packages *like* deletion, changing from mega-life to mid-life and *vice versa*. This indicated that the initiation of packages were carried out without adequate assessment or those revisions were made on financial considerations than the need for R&M activities as per R&M Policy. This vitiated the purpose of identifying packages and meeting the timelines specified for the same.

Audit also observed that as against one month's time stipulated for according investment approval for schemes, NTPC delayed the same by one to 39 months. This delay was attributable to the fact that NTPC took 21 months *(from 19 January 2009 to 26 October 2010)* for finalising the strategy for claiming R&M expenditure in line with CERC Regulations 2009-14 compared to the earlier Regulations 2004-09. CERC notified the

[1] ***ED level Empowered Committee comprising of Regional Executive Director, Executive Director (Operating Service), Executive Director (Engineering), Executive Director (Finance) and Executive Director (Commercial)***

[2] ***As per delegation of power, CMD is authorised to approve R&M proposal of any unit up to ₹150 crore.***

Regulations on 18 January 2009 and NTPC appointed acommittee on 6 February 2009 for formulation of strategy. Though the committee took more than seven months and submitted the strategy in October 2009, the same was placed before the Board only in October 2010. It is pertinent that this delay occurred at a time when a number of R&M works were held up for want of finalisation of the strategy. Further, though the new strategy was finalized in October 2010, investment approval for most of the packages was accorded between February 2011 and April 2013.

NTPC stated (October 2014/February and December 2015) that mid-life R&M was mentioned as first cycle of R&M and the same was not elaborated in R&M Business Process. Mid-life R&M was mainly need based and not to be construed as mandatory.In order to optimize R&M expenditure, schemes of higher priority were taken up and schemes of lower priority were deferred or deleted.In case of mega-life schemes, some critical R&M activities were taken up on priority as per needs of the power stations without waiting for finalization of the entire scheme. It was added that since the CERC Regulations 2009-14 mandated switchover to compensation allowance for mid-life R&M resulting in less availability of fund, the Empowered Committee had to prioritiseschemes. R&M Policy was formulated (May 2002) for the first time primarily keeping in view the operational issues prevalent at that time and based on the operational experience of stations, the guidelines were reviewed in March 2006.

The reply is to be viewed in light of the fact that it was clearly mentioned in R&M Policy 2002 and Business Process 2006 that schemes were to be taken up after specified hours of operation for mid-life and for mega-life R&M activities. The main purpose was to achieve the objectives set for improving the performance or extending life of power stations through proper diligence process including prioritization within the specified timelines, as any delay in initiating and completing R&M would have considerable financial implication by way of increased cost of generation or extra expenditure. The delays were worked out with reference to the time earmarked for each activity in the R&M Business Process 2006, which was prepared as a supplementary document to the R&M Policy 2002. It is also pertinent to note that when a policy was in place for R&M activities, the primary responsibility was to ensure that those were adhered to so that the specific objectives were achieved. Regarding change in CERC Regulations, Audit noticed that NTPC took 21 months to finalise the strategy for claiming R&M expenditure knowing that a number of R&M packages were held up for want of its finalization, which was not justifiable. It is pertinent to note that though eight power stations had already completed more than 21 years of useful life, none of them formulated any R&M schemes due to non-formulation of strategy in view of change in Regulations 2014-19 compared to Regulations 2009-14.

(b) Tendering and awarding

As per R&M Business Process 2006, the R&M packages were to be awarded within four months from the date of investment approval. Audit noticed that out of 335[1]contract packages identified for implementation, 34contract packages were to be awarded by corporate office and 301 by regional/site offices. Thecorporate office awarded 18 contract

[1] ***Initially 272 contract packages were involved in 20 approved R&M schemes, however, after deletion, clubbing or bifurcation, these were increased to 335***

packages with a delay of five to 55 months. Further analysis revealed that delay in issue of notice inviting tenders (NIT) ranged from two to 50 months, delay of five to 24 months was noticed in award of contract from the date of issue of NIT. Similarly, in case of packages awarded by regional/site offices, delay of one to 99 months in 149 out of 179 contract packages was noticed. Main reasons attributable for these delays were (i) changes in packages before tendering, (ii) mismatch of work schedules specified in NIT/quoted by the bidders,(iii) non-availability of units as per maintenance/capital overhauls, rolling plan,*etc*., and (iv) frequent revision of package list of R&M schemes.

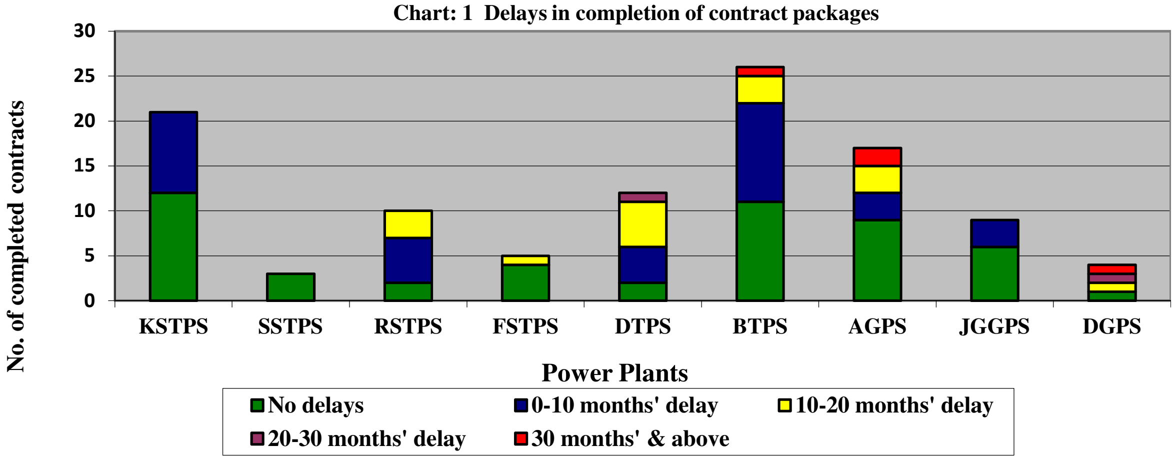
NTPC stated (February 2015) that subsequent to the issue of R&M Policy 2002, a revised policy was issued in 2006. Further, time allowed for placing awards was now governed by contract circular no. 665 dated 27 July 2012. It was further (December 2015) stated that this circular was a suggestive one and more time might be required in certain circumstances.

The fact, however, remains that R&M Business Process 2006 prescribed a time frame of four months from investment approval to award a contract, which was not complied with, and the reasons attributable for delay indicated lack of planning in initiating the R&M packages. Further, the contract circular referred to did not prescribe any time frame for activities between investment approvals to NIT. The contract circular of July 2012 prescribed 10 months for completing activities between NIT and award. There was delay ranging between one to 14 months in eight out of 18 corporate packages even after adopting the timelines prescribed in the circular.

11.5.3.2 Implementation of R&M packages

(a) Time over-run

Audit noticed that NTPC accorded investment approval for 20 schemes in nine selected power stations during July 2007 to April 2013 (except Anta GPS which was in July 2004) with scheduled date of completion of 15 by March 2015. However, none of the schemes was fully completed as of March 2015. Out of 197 packagesawarded up to March 2015, only 107 packages were completed.Delays noticed in respect of completed packages as of 31 March 2015 are indicated in the following chart.



Audit observed that 41 out of 107 packages completed suffered from delays, the reasons for the same were mainly attributable to NTPC and consisted of (i) delay in issuing construction drawing/system requirements (Badarpur TPS, Ramagundam STPS, Farakka STPS and Korba STPS), (ii) delay in providing front (Ramagundam STPS and Anta GPS), (iii) delay in approval of drawingsand documents like quality assurance plan, type test, *etc.,* and un-clarified pre-dispatch inspection clause (Badarpur TPS, Ramagundam STPS, Korba STPS and Singrauli STPS), (iv) delay in test report of soil by engineering division (Badarpur TPS), (v) additional scope added in the contract package (Badarpur TPS and Dadri TPS), and (vi) non-availability of shut down at units for installation of materials (Dadri TPS, Badarpur TPS, Anta GPS, Korba STPS, Singrauli STPS and Farakka STPS). Audit also observed that due to non-synchronisation of procurement activities with available shutdown of units, the material remained idle till shut down of units were available. Similarly, in fiveout of 107 packages, the reasons for delay were attributable to contractors and these included delay in performance guarantee test (Dadri TPS), delay in supply of material and failure/delay in sending supplier's representative (Ramagundam STPS). As a result of these delays, NTPC sufferedloss on account of forced outages, excess coal consumption and non-compliance with environment norms,*etc*. No cost overrun was, however, noticed in completed packages, except in case of Ramagundam STPS where cost overrun of ₹1.10 crore in 12 completed packages was noticed.

NTPC, while not furnishing any clarification for the delay in completing packages, accepted (December 2015) that the proposals were initiated by taking budgetary offer from vendors in 2006 and due to time lag, there has been minor increase in award value of some schemes. However, the fact remains that this delay had resulted in avoidable forced outages and excess coal consumption as the power plants were operated with old/deficient systems.

(b) Packages under implementation

Audit observed considerable delays in implementation of some of the packages, due to which NTPC has been incurring extra/avoidable expenditure as indicated in Table-4.

Table-4: Illustrative cases of delayed implementation

Observations	NTPC reply and audit remarks
***(i) Loss due to leakage of cooling water ducts* -** In Singrauli STPS, a cooling water duct was leaking since 1990 and a supplementary pump had to be operated incurring additional energy charges of ₹ 1.97 crore *per annum*. On the advice of Indian Institute of Science, Bangalore (April 2009), a contract was awarded (May 2011) to M/s IVRCL Infrastructure & Projects Ltd for ₹ 68.05 crore with scheduled completion by May 2013. However, 50 *per cent* of works only was completed up to March 2015. Though NTPC	NTPC stated (December 2015) that once the old duct was replaced; energy losses would be averted once and for all. The work was taken up without shutting down any of the units, an option which would have resulted in disruption of power supply/costlier power besides huge loss, much more than the energy charges. It was added that action was now being taken for early completion of the work. However, it is pertinent to note that the duct was to be laid without any separate unit shut down and both the ends of the duct were planned to be

Observations	NTPC reply and audit remarks
withheld ₹ 1.71 crore towards liquidated damages, it gave time extension upto March 2016. Thus, despite incurring additional expenditure of ₹ 1.97 crore *per annum* (₹ 7.88 crore from 2012 to 2015), NTPC could not ensure that the project was completed within scheduled time to avoid further expenditure though the work was awarded in May 2011.	connected in the system duringannual shut down only.
(ii) Loss due to poor water quality – For urgent requirement of clean water for Badarpur TPS, NTPC approved (July 2011) R&M works for cooling water system at ₹ 239.88 crore. Out of total 37 packages of the system *(2 major corporate, one regional and 34 site packages)*, two major corporate and 22 site packages were not awarded (October 2015). It was noticed that due to poor water quality, power station has been facing problems *like* choking of condenser tubes, frequent back washing/condenser cleaning, replacement of condenser tubes, boiler tube leakage, *etc*. This has also resulted in avoidable expenditure of ₹ 33.77 crore on account of condenser cleaning job, condenser tube replacement, partial load reduction and generation loss of electricity of 423.512 million units (MU) valued at ₹138.42 crore on account of hydrogen embrittlement causing boiler tube leakage during 2011 to 2015.	NTPC stated (December 2015) that Delhi Pollution Control Committee (DPCC) and Delhi Government, citing high levels of pollution, have been requesting to consider closing down the station. As such, station was being operated to meet power requirement of Delhi. In view of this, the packages were not being pursued. The fact, however, remains that NTPC has already completed packages for reducing pollution in April 2014 and May 2015 for two units and has been operating one of these units regularly, and the pollution levels were now under the DPCC norms. Since no decision has so far been taken on closure of units, NTPC would continue to operate the units and incur avoidable expenditure and generation loss.
(iii) Extra/wasteful expenditure due to delay in placing order –In Singrauli STPS (Stage-I), R&M package for gravimetric feeder controller[1] (GFC) system having 18 feeders was approved (November 2003) at an estimated cost of ₹1.97 crore. A proposal to award this work to original equipment manufacturer (OEM) M/s Stock Redler at ₹ 3.59 crore was scrapped (23 September 2006) citing high price and decided to award (11 February 2008) the same to Bharat Heavy Electrical Limited (BHEL) at ₹ 0.63 crore (for two feeders). Since GFC commissioned by BHEL did not work properly, the work for retrofitting all 18 feeders was awarded (March 2015) to OEM contractor at ₹ 6.82 crore with	NTPC stated (December 2015) that the work was taken up on an experimental basis to attempt reduction in the cost of procurement and dependence on foreign vendors and had it been successful, it would have resulted in substantial savings. The reply needs to be viewed against the fact that while NTPC cited high cost for not awarding the work to OEM contractor who quoted a total of ₹ 3.59 crore for 18 feeders (*i.e.,*₹ 0.20 crore per feeder), it awarded the work to BHEL at ₹ 0.32 crore per feeder. Therefore, the argument that it took up the work on an experimental basis to reduce cost was not factual.

[1] ***GFC is a weight measurement system for coal. After the Coal Handling Plant get loaded into the coal bunker, the coal input to the coal mill is regulated through GFC.***

Observations	NTPC reply and audit remarks
scheduled completion by April 2016. As a result, NTPC not only suffered a loss of ₹ 4.85 crore (₹ 6.82 crore - ₹ 1.97 crore) towards price escalation but also incurred wasteful expenditure of ₹ 0.63 crore on account of feeders supplied by BHEL.	
(iv) Delay in rectifying defective work–In Singrauli STPS, the work of condenser on load tube cleaning system was awarded (October 2005) to M/s Technos et Compagnie, France for supplies and to M/s Macmet India Ltd. (January 2006) for supply and installation from India at a total value of ₹ 3.41 crore. The works were completed in February 2008, and on testing, it was observed that only 60 *percent* ball recovery was achieved as against 95 *percent* ball recovery as agreed. As such, default notices were served (December 2010) to the contractors and asked (June 2015) them to remit ₹ 2.53 crore paid to them. However, Audit observed that the defective work had not been rectified so far (March 2015).	NTPC accepted (December 2015) that due to not achieving guaranteed performance, bank guarantees equivalent to ₹ 0.65 crore have been encashed. However, fact remains that NTPC did not encash remaining bank guarantees *(Euro 88683 and ₹0.25 crore)* though it issued notice of failure in December 2010, and no steps have been taken to rectify the defective works, whch has been causing excess consumption of coal.
(v) Generation loss due to high shaft vibration – In Singrauli STPS, since the useful life (200,000 operating hours) of turbo generator bearings of all the seven units were completed between 2008 and 2013, a package for upgradation of bearings for unit # 1 to 5 was approved in April 2013, but contract for the same has not been awarded till March 2015. Meanwhile, a purchase order for procuring bearings for unit # 6 and 7 was placed (October 2013), but the supply was not completed till March 2015. As the bearings were being operated beyond their useful life, high vibration were noticed in units # 1, 2, 5 and 6, due to which the units were under forced shutdown for 2297 hours during 2009-10 to 2014-15. This resulted in generation loss of 763.53 MU valuing ₹ 131.36 crore.	NTPC accepted (December 2015) that decision for replacement of bearing was taken on the basis of deviation observed in dye penetration test and ultrasonic test of bearing. It was also stated that the issue as mentioned in audit para has already been addressed and these units were presently in healthy condition giving full generation. The reply needs to be viewed against the fact that though the bearing exceeded its useful life since 2008, it were not replaced yet (December 2015), and during this period four out of six units were under forced shutdown causing generation loss.

11.5.3.3Impact of delay in implementing R&M packages

(a) Excess coal consumption of ₹881.89 crore

With increasing age, efficiency[1] of power generation units decrease, while good operation and maintenance practices and timely renovation and modernization enable the units to

[1] ***Efficiency = 860/heat rate; as heat rate increase, efficiency declines.***

recover a portion of past deterioration allowing them to stay close to design parameters. Against this background, NTPC initiated a number of R&M packages to increase thermal efficiency of power plants. Audit, however, observed that due to non-completion of R&M packages within stipulated time, power plants have been consuming more coal due to poor thermal efficiency. There were a host of issues that affected thermal efficiency of NTPC power plants, which included (i) intake of incorrect coal flow inside furnace due to malfunctioning of feeder control system cards (Korba STPS), (ii) absence of high pressure heater, flue gas temperature at air preheater in excess of 136 degree Celsius, *etc.* (Singrauli STPS), (iii) problems in boiler and boiler auxiliary (Ramagundam STPS), and (iv) old age of power plants (Badarpur TPS, Dadri TPS, and Farakka TPS). As a result, power plants had been operating with poor thermal efficiency and consuming excess coal as indicated in Table-5.

Table-5: Details of excess coal consumption due to poor thermal efficiency

Sl No.	Name of power plant	Scheduled completion from actual date of initiation	Designed/ desired* efficiency (*Per cent*)	Actual efficiency range (*Per cent*)	Period of loss	Excess coal consump-tion[1] (Lakh MT)	Value of excess coal (₹in crore)
1	Korba Stage I	2010-11	37.73	35.70 to 35.73	2011-15	7.34	88.05
2	Singrauli Stage-I	2011-12	37.19	35.97 to 36.16	2012-15	5.31	81.50
3	Badarpur TPS Stage-II	2008-09*	33.73*	32.97 to 33.86	2009-15	1.57	37.85
4	Dadri TPS Stage-I	2008-09*	36.32*	35.76 to 36.04	2009-15	2.85	119.91
6	Ramagundam STPS Stage-I	2010-11	39.05	36.29 to 36.59	2011-15	8.11	221.52
7	Ramagundam STPS Stage-II	2010-11	37.77	36.16 to 36.39	2011-15	12.24	333.06
	Total					**37.42**	**881.89**

**** In these power plants, desired efficiency was applied and excess coal consumption was worked out from 2008-09 only, since management estimated improvement in thermal efficiency.***

NTPC stated (December 2015) that there was wide variation of actual thermal efficiency with respect to design efficiency because of different ambient conditions, load variation, poor quality of coal, number of start-ups and stress due to continuous operation over long duration,*etc*. CERC allowed certain margin while notifying the heat rate norms to take care of the actual operating conditions and it has been operating within these norms. Regarding measurement of coal flow in case of Korba STPS, it was stated that the same has no relation with combustion. The air flow was maintained through oxygen measurement and occasional failure of feeder control cards would not cause loss continuously.

The reply needs to be viewed against the fact that excess coal consumption has been worked out with reference to gross calorific value of coal as claimed by NTPCwhile working out loss of quality of coal, and therefore, the poor quality of coal was already considered. Since actual thermal efficiency was lower than the designed ones in all power

[1] ***Excess Coal consumption = {(Design Heat rate/Actual GCV of coal)*Generation }-Actual Coal consumption***

stations, R&M schemes were identified and non-completion of the same, therefore, resulted in persistent excess consumption of coal. Regarding heat rate fixed by CERC, it is worthwhile to note that CERC fixes the norm considering the present operating conditions of the plant. However, audit observation pertains to non-achieving desired objectives of R&M with respect to improving thermal efficiency. Through R&M packages, NTPC envisaged heat rate improvement in power stations, andhad these been achieved, CERC would have also revised the norm accordingly. In respect of Korba STPS, it was noticed that due to malfunctioning of feeder control system cards, there was a chance of incorrect coal flow inside the furnace leading to incorrect coal accounting, which, in turn, cause improper combustion and accumulation of incombustible material inside the furnace area or loss of efficiency and heat rate.

(b) Forced outages resulting in generation loss of ₹489.29 crore

NTPC, with the objective of controlling forced outages, identified various R&M packages *like* control and instrumentation (C&I) package, electrical packages, boiler packages and turbine packages, to be completed during 2007-15. However, as these packages were not completed in time, forced outage of 3917.97 hours due to failure of the above systems was noticed during 2007-2015. This resulted in generation loss of 1924.77 MUs and opportunity to earn additional revenue of ₹ 489.29 crore in eight power stations as indicated in Table-6.

Table-6: Details of plant-wise forced outages

Sl. No.	Name of power plant	Period of loss	Hours	Units (MU)	Amount (₹ in crore)
1	Korba STPS	2011-15	53.32	22.07	3.85
2	Singrauli STPS	2012-15	67.92	30.60	5.34
3	Jhanor GGPS	2009-15	7.44	1.47	0.94
4	Dadri GPS	2008-15	1266.09	191.47	65.92
5	Dadri TPS	2007-15	1607.83	340.95	122.62
6	Badarpur TPS	2007-15	548.26	115.13	42.99
7	Anta GPS	2007-15	367.11	45.19	15.88
8	Ramagundam STPS	2011-15	NA@	1177.90	231.75
	Total		**3917.97**	**1924.77**	**489.29**

@ Details were not maintained by the plant

NTPC stated (December 2015) that in a power plant, planned outage of about 5 to 6 *per cent*, forced outage of 2 to 3 *per cent* and partial loading of about 1 to 2 *per cent* were common and considered normal. Achieving performance better than thiswould require enormous efforts and investments, which might not be commensurate with benefits. Tariff for the period 2004-09 and 2009-14 comprised two parts, *namely*, capacity charge (for recovery of annual fixed cost) and energy charge. Fixed component was recovered on the basis of annual availability whereas variable components were recovered towards fuel cost. CERC Regulations specify annual target plant availability factor for the stations and if the specified target availability was achieved, full fixed cost recovery was made.

The reply is to be viewed in light of the fact that forced outages occurred due to non-completion of R&M packages for systems like C&I, electrical and boiler and auxiliary systems *etc.*, which were envisaged in R&M schemes for implementation during 2007-15. Though CERC has not prescribed any norm for forced outages, NTPC has also not produced any approved norms fixed by it or by any other competent body to be considered as industry benchmark. Audit has worked out generation loss reckoning only variable price and for the periods in which R&M packageswere to be completed.

(c) Non-adherence to environmental norms

As part of R&M activities, ESP schemes were approved in five power stations (*viz.*, Korba STPS, Singrauli STPS, Badarpur TPS, Farakka STPS and Ramagundam STPS) in order to reduce the emission levels of these stations so that to meet the norms fixed by State agencies. Table-7 below indicates emission level *vs.*norms in four out of five[1] power stations.

Table -7: Details of pollution norms *vs.* actual

Year	Korba Stage-I & II (Units 1 to 6)	Singrauli, Stage-I & II (Units 1 to 7)	Badarpur TPS, Stage-II (Units 4 to 5)	Farakka STPS, Stage-I & II (Units 1 to 6)
	Stack emission ranged level (mg/Nm^3) (average)			
Norm	**50**	**100**	**50**	**150**
2007-08	NA	126.00	NA	163.50
2008-09	122.39	128.50	NA	87.00
2009-10	122.55	128.00	80.50	84.50
2010-11	118.79	129.00	85.50	74.00
2011-12	92.37	127.50	87.00	136.00
2012-13	111.65	127.00	98.50	166.50
2013-14	90.70	128.50	96.00	71.50
2014-15	99.64	126.00	99.50	119.50

It may be seen that range of emission levels were higher than those fixed by pollution control agencies. Audit observed that though the Central/State agencies gave directions to adhere to the pollution norms, but inordinate delay in implementing ESP packages resulted in persistent non-compliance with environmental norms. As a result, NTPC had to deposit bank guarantee of ₹ 27.86 crore for Korba STPS and Badarpur TPS and to incur an avoidable expenditure of ₹ 7.32 crore for ammonia dosing system in Korba STPS and Singrauli STPS during the period from 2008-09 to 2014-15.

[1] ***However, in Ramagundam STPS, audit noticed that ESP levels reported by Management were within the standard for all years 2007-08 to 2014-15, but during inspection, the Andhra Pradesh Pollution Control Board has noticed EPS levels higher than prescribed norms.***

NTPC stated (February 2015/January 2016) that the target fixed by State agencies was very stringent for an old station and time period of one year was not feasible for implementation of ESP package due to complex technical issues. It was further added that after commissioning of ESP packages at unit # 4 and 5 of Badarpur TPS (Stage-II), the emission levels were within the limit. The fact, however, remains that though State agencies had stipulated norms as early as 2005, NTPC was yet (December 2015) to complete the packages, as such it had to incur avoidable expenditure of ₹ 7.32 crore for reducing the emission level through ammonia dosing system.

(d) Reduced tariff recovery of ₹199.65 crore

During 2009-14, NTPC availed compensatory allowance for mid-life R&M schemes in four coal based power stations[1], while the schemes were due for implementation during 2004-09. As a result, tariff recovery in four power plants was reduced by ₹199.65 crore as indicated in Table 8.

Table-8: Calculation showing amount forgone due to delay in implementing R&M packages

S. N.	Name of power station	Number of schemes	Estimated cost (₹in crore)	Amount allowed/to be allowed by CERC under Regulations 2009-14 up to 25 years (₹ in crore)	Benefits foregone (*i.e.* by not claiming under Regulations 2004-09) (₹ in crore)
(1)	**(2)**	**(3)**	**(4)**	**(5)**	**(6)=(4)-(5)**
1.	Korba Stage –II	2	105.03	53.80	51.23
2.	Singrauli,Stage-II	2	67.44	30.55	36.89
3.	Dadri, Stage-I	1	120.78	57.12	63.66
4.	Ramagundam, Stage-II	1	111.02	63.15	47.87
	Total	**6**	**404.27**	**204.62**	**199.65**

As evident from the table, out of total estimated expenditure of ₹404.27 crore, only ₹ 204.62 crore was allowed or to be allowed as compensatory allowance by CERC till useful life of above power stations. On the contrary, completion of R&M activities within time schedule, *i.e.*, during 2004-09[2] would have resulted in recovery of ₹404.27 crore as additional capitalisation as per CERC Regulations 2004-09.

NTPC stated (December 2015) that essential process time was required for formulating proposals and taking them through the approval process. This became more time consuming, especially when CERC changed the regulatory norms. Even if it had implemented these schemes and claimed tariff during 2004-09, there was no certainty that the entire amount would have been reimbursed by CERC. Tariff fixation was done after prudence check and CERC might have cleared lesser number of schemes/lesser cost

[1] ***Korba STPS Stage-II, Singrauli STPS Stage-I, Dadri TPS and Ramagundam STPS Stage-II.***

[2] ***As per the R&M Policy/R&M Business process of NTPC, the R&M work of Korba Stage-II, Singrauli Stage-II, Ramagundam Stage-II and Dadri TPS was to be completed upto March 2002, March 2001, March 2003 and March 2006 respectively.***

after such checks. It was also stated that only the actual expenditure incurred by NTPC on R&M and amount allowed by CERC were comparable.

The reply needs to be viewed in light of the fact that NTPC had itself considered the R&M activities as essential and therefore had estimated the cost to be incurred, and as per Regulations 2009-14 it would be paid compensatory allowance at a lump sum per station till it completes 25 years rather than the estimated cost. The argument of prudent check by CERC or allowance of lesser schemes/cost does not hold good considering the fact that as per Regulations 2004-09, NTPC had been booking expenditure on R&M as additional capital and no instance of reducing the scheme or cost was pointed by NTPC. Regarding comparison of actual cost and recovery, it is pertinent to note that since NTPC did not complete the works, the actual expenditure was not available, and hence the comparison was made with estimated cost.

(e) Loss of ₹23.42 crore due to disallowance of R&M expenditure

NTPC claimed R&M expenditure of ₹ 591.35 crore for Dadri GPS and ₹ 499.45 crore for Jhanor GGPS through tariff as additional capitalisation during 2009-14. However, CERC, at the time of truing up, allowed ₹ 380.62 crore for Dadri GPS (June 2012) and ₹ 170.17 crore for Jhanor GGPS (December 2011), and disallowed ₹ 210.72 crore for Dadri GPS and ₹ 329.28 crore for Jhanor GGPS, as NTPC failed to complete the works within the tariff period and the benefit would accrue to the beneficiaries in the next tariff period only. Consequently, as per CERC Regulations, NTPC had to refund the amount collected through tariff *plus* interest of ₹ 23.42 crore to the beneficiaries.

NTPC accepted (November 2014/December 2015) that it refunded an amount of ₹ 87.76 crore to the beneficiaries with interest of ₹ 8.42 crore in case of Dadri GPS and ₹109 crore with interest of ₹15 crore in case of Jhanor GGPS. The reply confirms the fact that NTPC had to pay interest purely on account of delayed implementation of R&M schemes.

Conclusion

NTPC framed (May 2002) R&M Policy with the objectives to sustain improved levels of performance of plant, equipments and systems, and to extend the useful life of the same. In order to streamline the timelines for implementing R&M activities, NTPC also formulated R&M Business Process 2006. Audit, however, noticed that the policy and business process were not adhered to, causing inordinate delays in initiating and implementing R&M packages. There were delays of three to 109 months in completing activities relating to R&M works in 19 out of 20 schemes selected in nine power stations. Under these schemes, 335 contract packages were identified but only 197 contract packages were awarded. Out of 107 packages completed, 41 packages were delayed up to 31 March 2015. Consequently, many of the packages were deferred resulting in reduced tariff recovery of ₹199.65 crore in four power stations. Similarly, NTPC had to refund tariff recovered against R&M packages along with interest of ₹23.42 crore, as these packages were not completed in time. Similarly, due to non-completion of projects in time, there were instances of avoidable or extra expenditure of ₹47.13 crore and generation loss of ₹269.78 crore.

As a result of delay in implementing R&M packages, excess coal consumption of ₹ 881.89 crore was noticed due to non up-gradation of coal feeder system in Korba STPS and poor thermal efficiency of boiler and turbine in Singrauli STPS, Dadri TPS, Badarpur TPS and Ramagundam STPS. Similarly, there was avoidable generation loss of electricity valued at ₹489.29 crore on account of forced outages due to frequent failure of C&I, electrical and other systems in Korba STPS, Singrauli STPS, Dadri TPS, Dadri GPS, Anta GPS, Badarpur TPS and Ramagundam STPS. Non-adherence to environment norms in Singrauli STPS, Korba STPS, Anta GPS, Farakka STPS, Badarpur TPS and Ramagundam STPS was also noticed.

Recommendations

In order to overcome the shortcomings noticed in implementation of R&M initiatives, Audit suggests that NTPC may:

- ***Ensure submission of comprehensive R&M proposals at the initiation stage itself so that time involved in re-submission of proposal and consequent delays are avoided.***
- ***Review the R&M Policy and R&M Business Process to minimize delays in various phases of implementation of R&M schemes.***
- ***Expedite the R&M activities so that forced outages and excess coal consumption are kept at minimum.***
- ***Ensure that amount claimed as R&M expenditure in tariff petitions is utilised within the tariff period to avoid refund or deferral of allowance by CERC.***
- ***Monitoring mechanism at all levels are made proactive so as to ensure timely completion of R&M schemes and for overall achievement of desired objectives.***

NTPC accepted (February/December 2015) all the recommendations and audit observations were appreciated as it would add value.

The matter was reported to the Ministry in January 2016; their reply was awaited (March 2016).

Rural Electrification Corporation Limited

11.6 Sanction of loan to financially weak private developer

Decision to sanction and disburse a loan disregarding the risk associated with financially weak promoters, after relaxing pre-disbursement conditions, resulted in risky exposure of ₹ 250 crore.

Rural Electrification Corporation Limited (REC) sanctioned (September 2005) a loan of ₹250 crore to M/s Shree Maheshwar Hydel Power Corporation Limited to set up a hydro power project in Madhya Pradesh. REC disbursed the loan in 12 instalments between August 2007 and March 2010. The loan was classified as non-performing asset in June 2011due to continuous default of the borrower in servicing the loan since December 2010 and categorised as doubtful in January 2013. The project was to achieve commercial operation by March 2010, but due to delay in implementation, commercial operation is yet to be achieved (December 2015).

Audit observed that as per loan sanction letter, borrower was required to fulfil certain pre-disbursement conditions, which, *inter alia,* included (i) complete underwriting for public issue of equity and bonds, (ii) tie-up of entire equity share capital, (iii) acquisition of all land required for rehabilitation and resettlement of affected villages and submergence, (iv) confirmation of clearance of outstanding to other lenders, (v) furnishing information on net-worth of promoters and (vi) approval of Madhya Pradesh State Electricity Board and Government of Madhya Pradesh for conversion of asset transferred to the borrower. However, these conditions were relaxed subsequent to approval of the loan at the time of disbursement of instalments by way of time extension for their compliance. The management of REC had deniedloan to the borrower on two previous occasions (August 2003/July 2004) citing default in servicing existing lenders and non-infusion of equity. Though the screening committee evaluated the loan application for an amount of ₹ 45 crore subject to a commitment of the lead lender for a term of loan of ₹529 crore, the Board of Directors sanctioned a loan of ₹ 250 crore.

REC stated (December 2015) that the loan was sanctioned after proper due diligence and risks identified were mitigated through appropriate conditions and/or taking undertakings from borrower/promoters. As per the practice followed among lending institutions and in line with lead lender, conditions were relaxed or modified with approval of competent authority. There were constraints of funds during last leg of project implementation and main reasons for delay were attributable to non-infusion of equity by promoters.

The reply is to be viewed against the fact that the due diligence conducted by the screening committee justified a loan of ₹45 crore only, while the Board had approved ₹ 250 crore. Although Board of Directors directed management to take a considered and independent view irrespective of the decision of lead/other lenders, the risk mitigating measures contemplated by way of pre-disbursement conditions were relaxed by way of extension of time for their compliance, and most of the conditions have not been complied with throughout the period of loan disbursement and as on December 2015.

Thus, decision to sanction and disburse the loan disregarding the risk associated with financially weak promoters, after relaxing pre-disbursement conditions resulted in risky exposure of ₹ 250 crore.

The matter was reported to the Ministry in January 2016; their reply was awaited (March 2016).

CHAPTER XII- RECOVERIES, CORRECTIONS/RECTIFICATIONS BY CPSEs AT THE INSTANCE OF AUDIT

Bharat Heavy Electricals Limited, Food Corporation of India, Northern Coalfields Limited, South Eastern Coalfields Limited and The New India Assurance Company Limited

12.1 Recoveries at the instance of audit

In 22 cases pertaining to 05 CPSEs, audit pointed out that an amount of ₹49.19 crore was due for recovery. The management of CPSEs had recovered an amount of ₹34.55 crore (70 *per cent*) during the period 2014-15 as detailed in **Appendix-I.**

Central Warehousing Corporation and Engineering Projects (India) Limited

12.2 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 XIII

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 LokSabha 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 LokSabha), 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.

A review in Audit revealed that despite reminders, 39 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: 23 May 2016

Countersigned

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

New Delhi
Dated: 23 May 2016

APPENDICES
&
ANNEXURES

Appendix-I

(Referred to in para 12.1)

Recoveries at the instance of Audit during 2014-15

(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
Coal	Northern Coalfields Limited	Loss due to short billing of performance incentive	522	1329
Coal	Northern Coalfields Limited	Excess payment to Forest department	1874.29	321.33
Coal	South Eastern Coalfields Limited	Recovery of increased licence fees from Executives in respect of company's quarters at Areas and consequent under recovery	150.00	179.39
Coal	Northern Coalfields Limited	Non-recovery of revised licence fees from the executives of the Company	616.00	90.18
Consumer Affairs Food and Public Distribution	Food Corporation of India	Incorrect payment of carryover charges	16.89	16.89
Consumer Affairs Food and Public Distribution	Food Corporation of India	Incorrect payment to State Agencies	66.66	56.58
Consumer Affairs Food and Public Distribution	Food Corporation of India	Over payment on account of gunny depreciation to State Govt. and its agencies on procurement of CMR rice	402.00	788.42

		during 2009-10		
Consumer Affairs Food and Public Distribution	Food Corporation of India	Delay in recovery due to weak internal controls on gunnies given on loan to State Agencies	874.00	262.68
Consumer Affairs Food and Public Distribution	Food Corporation of India	Avoidable payment of demurrage charges	28.69	3.76
Consumer Affairs Food and Public Distribution	Food Corporation of India	Non-recovery of stacking and weighment charges on replacement of BRL rice due to delay in replacement of substandard rice by State Agencies/ Millers	5.50	8.67
Consumer Affairs Food and Public Distribution	Food Corporation of India	Non recovery of differential amount from the State	29.40	77.18
Consumer Affairs Food and Public Distribution	Food Corporation of India	Non-forfeiture of security deposit collected from the defaulting transport contractor for the period 2010-11	29.76	29.65
Consumer Affairs Food and Public Distribution	Food Corporation of India	Irregular payment of Incentive to the junior departmental labour based on the basic pay of the senior departmental labour	70.30	58.38
Finance	The New India Assurance Company Ltd.	Non-payment of stamp duty on lease rent agreements	7.39	8.33
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Ltd	Loss due to non-claiming customs duty reimbursement from customer.	108.85	110.00
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Ltd	Non claiming of freight and service tax amounting to Rs 10.97 lakh	10.97	12.11
Heavy Industries and	Bharat Heavy Electricals Ltd	Non billing of freight of Rs 4.62 lakh	4.62	4.00

Public Enterprises		even after lapse of more than one year from supply completion		
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Ltd	Non recovery of Rs 18.32 lakh due to lapse in the ERP SAP system.	18.32	18.32
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Ltd	Non claiming of service tax incurred on transportation from customer Rs 13.05 lakh.	13.05	13.05
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Ltd	Excess payment of Royalty of Rs 17.10 lakh due to exclusion of cost applicable for the Auxiliary Boiler from the net invoiced value.	17.10	17.10
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Ltd	Non-recovery of site debit (Rs.49.96 lakh) accepted for rectification of the mismatch of holes in the splice plates supplied by various vendors	49.96	46.96
Heavy Industries and Public Enterprises	Bharat Heavy Electricals Ltd	Non reversal of proportionate CENVAT Credit taken on service tax for the sale of exempted goods.	3.00	3.00
		TOTAL	**4918.75**	**3454.98**

Appendix-II

(Referred to in para 12.2)

Corrections/Rectifications at the instance of Audit

Name of Ministry/Department	Name of the CPSE	Audit observations/suggestions in brief	Action taken by the Management
Consumer Affairs, Food and Public Distribution, Department of Food and Public Distribution	Central Warehousing Corporation	In terms of DPE OM No.2(27)85-BPE(WC) dated 24 April 1987, followed by DPE's clarification of July 2012, the central public enterprises were required to follow the overall ceiling of 300 days for encashment of EL and HPL on retirement of their employees. In deviation to the above guidelines, Central Warehousing Corporation (CWC) allowed encashment of 240 days HPL (120 days with full pay and DA/DP) beyond prescribed ceiling of 300 days to its retiring employees after attaining the age of superannuation only and paid an amount of ₹ four crore during the period from January 2010 to April 2014.	On being pointed out by Audit (April 2009), CWC amended its Leave Rules in the 309th meeting of the Board of Directors held on 26 April, 2014 limiting the maximum ceiling for encashment of leave at the time of superannuation to 300 days (including HPL) without commutation of HPL, with effect from 01 May 2014.
Heavy Industries & Public Enterprises	Engineering Projects (India) Limited	In terms of DPE OM No.2(27)85-BPE(WC) dated 24 April 1987, followed by DPE's clarification of July 2012, the central public enterprises were required to follow the overall ceiling of 300 days for encashment of EL and HPL on retirement of their employees. In deviation to the above guidelines, EPIL allowed encashment of EL/HPL beyond prescribed ceiling of 300 days to its employees on retirement /superannuation /death and paid an amount of ₹ 2.51 crore during the period from January 2006 to March 2014.	On being pointed out by audit (September 2013), EPIL amended its Leave Rules in the 229th meeting of the Board of Directors held on 22 November, 2013, limiting the maximum ceiling for encashment of leave at the time of superannuation / cessation of service other than on disciplinary grounds to 300 days of EL and HPL combined, with effect from 28 November 2013.

Appendix-III

(Referred to in Chapter XIII)

Statement showing the details of Audit Reports (Commercial) up to 2015 for which Action Taken Notes are pending

No. & year of Report	Name of Report	Para No.
Department of Atomic Energy		
21 of 2015	Compliance Audit	Paras 1.1, 1.2 and 1.3
Ministry of Civil Aviation		
21 of 2015	Compliance Audit	Paras 2.1, 2.2, 2.6, 2.7, 2.8 and 8.1
13 of 2013	Compliance Audit	Paras 3.1 and 3.3
Ministry of Coal		
21 of 2015	Compliance Audit	Paras 3.2, 3.4 and 8.1
8 of 2012-13	Compliance Audit	Para 3.1
Ministry of Commerce and Industry		
21 of 2015	Compliance Audit	Paras 4.1 and 4.3
Ministry of Development of North Eastern Region		
21 of 2015	Compliance Audit	Para 6.1
13 of 2014	Compliance Audit	Para 8.1
Department of Fertilizers		
13 of 2014	Compliance Audit	Para 2.2
13 of 2013	Compliance Audit	Para 8.1
3 of 2011-12	Compliance Audit	Para 8.1
Ministry of Finance, Department of Financial Services		
21 of 2015	Compliance Audit	Paras 7.1, 7.2 and 7.3
13 of 2013	Compliance Audit	Paras 9.2 **(02 Companies)** and 9.4
Department of Food and Public Distribution		
21 of 2015	Compliance Audit	Para 5.3

Department of Heavy Industries		
21 of 2015	Compliance Audit	Paras 1.1, 1.7 and 1.8
13 of 2014	Compliance Audit	Para 13.2
26 of 2013	Performance Audit on expansion and utilization of power equipment manufacturing capacity in BHEL	Standalone Report
Ministry of Mines		
21 of 2015	Compliance Audit	Para 2.2
13 of 2014	Compliance Audit	Para 13.1
Ministry of Power		
10 of 2012-13	Performance Audit on Capacity expansion in Hydro power sector by CPSEs	Standalone Report
21 of 2015	Compliance Audit	Para 4.1
13 of 2013	Compliance Audit	Para 12.1

Annexure-I

(referred to para 8.1.2.1)

Target and achievement

(₹ in crore)

Particulars	**2012-13**	**2013-14**	**2014-15**
Consumer Business Division			
Target	84.92	88.43	113.71
Achievement	59.14	65.51	79.93
Per cent of achievement	**69.64**	**74.08**	**70.29**
Hi-Care Division			
Target	60.03	77.97	107.88
Achievement	42.50	53.57	73.64
Per cent of achievement	**70.80**	**68.70**	**68.27**
Women Health Care division:			
Target	75.00	95.58	129.00
Achievement	82.34	110.05	117.37
Per cent of achievement	**110**	**115.13**	**90.98**
International Business Division			
Particulars	**2012-13**	**2013-14**	**2014-15**
Target	76.60	206.76	165.29
Achievement	126.96	133.11	155.58
Per cent of achievement	**165.74**	**64.38**	**94.12**
Government Business Division			
Target	No target fixed		
Achievement	319.10	283.56	342.85

Annexure-II
{Referred to in Para No. 11.5.3.1(a)}
Details of delays in different R&M activities of 20 Mid/Mega life R&M schemes

(Delay in months)

Sl. No.	Name of power station	Type of R&M scheme	Delay in initiation power stations@	Delay in submission of final proposal to corporate office by power stations	Delay in approval by ED level Committee before[1] sending to CEA	Delay in approval by CEA[2]	Delay in final approval by ED level Committee after CEA's approval	Delay in approval of Investment by CMD/ Board	Total delay
	Prescribed time	**As per R&M Policy**		**8 months**	**8 months**	**8 months**	**1 month**	**1 month**	
1	Korba STPS (3x500MW) Stage-II	Mid	No delay*	4	Not applicable[3]	Not required	No delay	8	12
2	Korba STPS (3x500MW) Stage-II	Mid (C&I[4])	No delay*	No delay	6	No delay	Not held	3	9
3	Singrauli STPS (2x500 MW) Stage-II	Mid	No delay*	No delay	Not applicable	Not required	No delay	10	10
4	Singrauli STPS (2x500 MW) Stage-II	Mid (DDCMIS)	No delay*	2	No delay	No delay	Not held	1	3
5	Dadri TPS (4x210 MW)	Mid	12	20	12	10	Not held	28	82

[1] *One month time for management approval before sending to CEA was not considered for delay.*
[2] *As per CERC Tariff Regulation 2009-14, CEA approval was not required after March 2009.*
[3] *Approval from ED level empowered committee before sending to CEA was not applicable after March 2009 in view of CERC Tariff Regulation 2009-14.*
[4] *Control & Instrumentation system*

6	Ramagundam STPS (3x500 MW) Stage-II	Mid	No delay*	No delay	Not Applicable	Not required	34	8	42
7	Farakka STPS (2x500 MW) Stage –II	Mid	No delay*	No delay	Not applicable	Not required	No delay	No delay	0
8.	Korba STPS (3x200 MW) Stage-I	Mega	19	18	Not applicable	Not required	19	6	74
9	Korba STPS (3x200 MW), Stage-I	Mega (C&I)	19	18	Not applicable	Not required	No delay	10	47
10	Korba STPS (3x200 MW), Stage-I	Mega (ESP[5] Stage I&II)	Initiated by Corporate office	64	Not applicable	Not required	No delay	9	73
11	Singrauli STPS (5x200 MW) Stage-I	Mega	38	4	Not applicable	Not required	34	6	82
12	Singrauli STPS (5x200 MW) Stage-I	Mega (CW[6] duct)	38	4	Not applicable	Not required	3	4	49
13	Singrauli STPS (5x200MW) Stage-I	Mega (ESP stage – I & II)	38	38	Not applicable	Not required	Not required	No delay	76
14	Badarpur TPS(2x210 MW) unit 4&5	Mega	No delay	11	30	No delay	Not required	20	61
15	Badarpur TPS (3x95 MW + 2x210 MW)	Mega (CW duct)	No delay	11	30	29	Not required	39	109
16	Ramagundam STPS (3x200 MW) Stage-I	Mega	20	17	Not applicable	Not required	19	3	59

[5] ***Electrostatic precipitator***
[6] ***Cooling Water duct***

17	Farakka STPS (3x200 MW) Stage-I	Mega ESP	Initiated by corporate office	50	Not required	Not required	Not required	No delay	50
18	Jhanor GPS (657.39 MW)	Mega	No delay	6	15	5	Not held	20	46
19	Dadri GPS	Mega	4	24	7	2	27	4	68
20	Anta GPS	Mega	No delay	29	Not applicable	Not required	Not required	No delays	29

@ Though the time to initiate R&M Schemes fell in the middle of respective financial years, the delays were worked out from the beginning of next financial year.
****Delay has not been considered in these R&M schemes as the Management had already initiated some of the R&M activities in these projects between 2001 and 2007.***

Annexure-III
{Referred to in Para No. 11.5.3.1(a)}
Details of abnormal delays in various R&M activities by Power Station/ Corporate Office

Sl. No.	Name of Power Station	Type of R&M scheme	Main reasons for delays
1	Korba Super Thermal Power Station (KSTPS)(3x200MW) Stage-I	Mega	➢ Revision of packages by Power Stations. ➢ C&I and ESP packages were deleted from Mega R&M scheme on the basis of urgency and compliance of Statutory Requirement. ➢ Shifting of R&M packages from Mega life scheme to Operation & Maintenance. ➢ Revision/deletion of packages by ED level Empowered Committee in light of change in CERC Tariff Regulation.
2	Korba STPS (3x200 MW), Stage-I	Mega (C&I)	
3	Korba STPS (3x200 MW), Stage-I	Mega (ESP Stage I&II)	
4	Korba STPS(3x500MW)Stage-II	Mid	➢ Shifting of R&M packages from Mid-life to Mega life by Empowered Committee/Financial Appraisal Agency, ➢ Change in CERC Tariff Regulation. ➢ Reasons for delay in initiation and submission to Corporate Office were not on record.
5	Korba STPS(3x500MW)Stage-II	Mid (C&I)	
6	Singrauli Super Thermal Power Station (SSTPS) (5x200 MW) Stage-I	Mega	➢ Revision of packages by Power Stations. ➢ Cooling Water Duct and ESP packages were deleted from Mega R&M scheme on the basis of change in law category and compliance of Statutory Requirement. ➢ Revised/deleted R&M schemes by ED level Empowered Committee in view of Change in CERC Tariff Regulation
7	Singruali STPS(5x200 MW)Stage-I	Mega (CW water duct)	
8	Singrauli STPS (5x200MW), Stage-I	Mega (ESP stage –I &II)	
9	Singrauli STPS (2x500 MW) Stage-II	Mid	➢ Comprehensive R&M proposal/schemes were not made at initial stage. ➢ Revision of packages and inordinate time take by ED level Empowered Committee, ➢ Revised/deleted R&M schemes by ED level Empowered Committee in view of Change in CERC Tariff Regulation
10	Singrauli STPS (2x500 MW) Stage-II	Mid (DDCMIS)	

Sl. No.	Name of Power Station	Type of R&M scheme	Main reasons for delays
11	Jhanor Gandhar GPS(657.39 MW)	Mega	➢ Revision of packages by Power Station, ➢ Inordinate time taken by ED level Empowered committee ➢ Revised/deleted R&M schemes by ED level Empowered Committee in view of Change in CERC Tariff Regulation
12	Dadri TPS(4x210 MW)	Mid	➢ Inordinate time taken by ED level empowered committee to approve the R&M proposals before submission to CEA. ➢ Revised/deleted R&M schemes by ED level Empowered Committee in view of Change in CERC Tariff Regulation ➢ Reasons for delay in initiation and submission to Corporate Office were not on record.
13	Dadri GPS (829.78 MW)	Mega	➢ Delay in sending of R&M proposals by Power Station ➢ Revision/deletion of packages by Empowered Committee ➢ Revised/deleted R&M schemes by ED level Empowered Committee in view of Change in CERC Tariff Regulation
14	Badarpur TPS (2x210 MW) unit 4&5	Mega	➢ Revision in R&M packages which were already approved from CEA.
15	Badarpur TPS (3x95 MW + 2x210 MW)	Mega(C&W)	➢ Revision of R&M packages by ED level Empowered Committee.
16	Anta GPS (419.33 MW)	Mega	➢ Delay in submission of R&M proposal by Station to Corporate.
17	RamagundamSTPS(3x200 MW) Stage-I	Mega	➢ Comprehensive proposal were not made at initial stage of R&M scheme. ➢ Revision/deletion of R&M packages by ED level empowered committee on basis must schemes. ➢ Revised/deleted R&M schemes by ED level Empowered Committee in view of Change in CERC Tariff Regulation
18	Ramagundam STPS(3x500 MW) Stage-II	Mid	➢ Comprehensive proposal/schemes were not made at the initially stage, ➢ Revised/deleted R&M schemes by ED level Empowered Committee in view of Change in CERC Tariff Regulation ➢ Deletion/Shifting R&M packages to Mega life by ED level Empowered Committee

Sl. No.	Name of Power Station	Type of R&M scheme	Main reasons for delays
19	Farakka TPS(2x500 MW)Stage –II	Mid	➢ Reasons for delays in initiation of Corporate Office is not on record
20	Farakka TPS(3x200 MW)Stage-I	MegaESP package	➢ Reasons for delays in initiation of Corporate Office is not on record