

CHAPTER XX

AUDIT PARAS

AUDIT PARA No.3.1.1 ON AVOIDABLE LOSS OF RS. 4.49 CRORE DUE TO DESPATCH TO NON-WEIGHED COAL TO SAIL- BHARAT COKING COAL LIMITED(BCCL)

Observation of audit	Reply/ATN of Department of Coal/ BCCL	Vetting remarks of Audit
<p>Audit Para No.3.1.1-Audit Report No.3 of 2004, Union Govt. (Commercial).</p> <p>The company suffered an avoidable loss of Rs. 4.49 crores due to supply of un-weighed coal to a steel plant of Steel Authority of India Limited through Burragarh Railway siding during the period 1997-2000. The coal could not be weighed on account of in-operation of electronic weighbridge at loading point.</p> <p>Bharat Coking Coal (BCCL) suffered an avoidable loss of Rs. 4.49 crore due to un-weighed coal supplied from</p>	<p>The reply/ATN of Ministry of Coal/BCCL is given below:-</p> <p>The relevant clause agreed to between SAIL and BCCL regarding weighment of coal are reproduced below:</p> <p>“Weighment: Director, SAIL and CMD, BCCL confirm that they had come to a mutual understanding with regard to the Weighment producers and systems which would be followed by both parties. This was decided in a joint meeting convened by CIL at Calcutta on 20th May,1996(copy enclosed), when it was agreed that 100% Weighment of coal at all loading points will be done by CIL. If any rake is not</p>	

Kustore Area to the Durgapur Steel Plant of Steel Authority of India Limited (SAIL) through Burragarh Railway siding during the period of August,1999 to February,2000. The coal was despatched un-weighed as the electronic weighbridge was not in operation during that period and the Management could not involve the SAIL in the system of Joint Volumetric measurement till the electronic weighbridge was put in operation.

SAIL disallowed the payment for shortage of 23291.20 MT and made the deduction to the extent of Rs. 4.49 crore (Value of coal fund short on Weighment at destination). During this period the quantity of coal for billing purpose was determined as per carrying capacity of the wagons plus 2 MT and from March,2000 onwards no coal was despatched through Burragarh siding. The weighbridge is still defective (July,2003) and its performance is to be stabilised.

weighed at loading point, payment would be made on destination weighment basis with necessary adjustment for moisture.”

(A copy of the minutes of the meeting held on 23.10.1996 is enclosed)

“Weighment of Coal:

It was decided that:-

- a) Weighment will be carried out at the loading point.
- b) If the Weighbridges are under break-down at the loading point, Weighment at the destination with printout will be accepted and on the destination weight 3% will be added a/c. loss en-route to arrive at the final weight figures for payment
- c) If the weighbridges are under break-down at the both the ends, then R/R weight will be taken as final weight for the purpose of payment.

2. The settlement on account of non-weighment of wagon at the loading end has been done strictly accordingly to the agreed principles of weighment. In the absence of functioning of weighbridge at the loading end and the R/R

Management while accepting the facts stated (February,2003) that the despatches were made to fulfil the requirement of SAIL for their uninterrupted production cycle. The contention of the Management is not acceptable since they being aware that unweighed coal was being supplied to SAIL, neither stopped the despatch of coal through Burragarh siding till, February,2000 nor made available a weighbridge to measure the coal prior to despatch. Further, no claim for shortages was lodged with the Railways, because the coal was not weighed before loading in wagons, Resultantly, the company suffered an avoidable loss of Rs. 4.49 crores.

The amount of Rs. 4.49 crores has also been written off in the respective year of accounts of the company.

The matter was referred to the Ministry in May,2003, their reply was awaited (August,2003).

had to contain weight, Railways had indicate the Carrying Capacity + 2 tonnes as loaded quantity of coal. Bills are to be raised strictly as per the information contained in the R/Rs. In the absence of weighment at the loading end, payment as per Weighment at the unloading end had to be considered as acceptable. The difference has been accepted and adjusted by BCCL.

3. Carrying Capacity+2 Tonnes being the notional figure, it cannot be considered that difference between national qty. and actual qty. as loss to the BCCL.

In view of the above, Audit is kindly requested to drop the para.

Action Taken Notes of Audit Report (Comml.) No. 3 of 2004

Audit Para No.	Audit observation	Action Taken Report by Companies/MOC	Vetting remarks of Audit.
3.1.2	<p>Bharat Coking Coal Limited Additional expenditure of Rs.1.87 crore on reroilment of the derailed wagons.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Bharat Coking Coal Limited had to incur an additional expenditure of Rs.1.87 crore for reroilments during the period 1998 to 2002 due to improper maintenance of railway tracks at private sidings of washeries, non-enforcement of contractual provisions against the contractors responsible and non supply of pathway materials in time by the Company.</p> </div> <p>Bharat Coking Coal Limited(BCCL) sustained a loss of Rs.1.87 crore during the period 1998 to 2002 due to improper maintenance of Railway tracks and non-enforcement of contractual clause against the private contractors, who were responsible for proper maintenance of railway tracks at private sidings of washeries.</p>	<p>During 1998-99 to 2001-02, 185 incidents of derailment took place and in every case Washery authorities were made responsible for the derailment. In fact, in many cases even though the derailments were caused due to fault on Railway's side like defective rolling stock, brake problem, defective operation like wrong point changing made by Railway staff, jamming of track with spilled coal due to damaged boxes or it defective doors etc., but the responsibility of derailments were generally thrust upon Washery authorities. For quick restoration of track to resume normal operation so as to avoid production loss, Washery authorities have practically no option but to accept the responsibility thrust on them by the Railways.</p>	<p>The fact finding committee constituted in July 2003 to look into each incident of derailment has not yet submitted its report. However the incidences of derailment were noticed further. There were 47 cases of derailment during the year 2002-03 and 2003-04 and out of which Railway claimed Rs.39.43 lakh for reroilment charges in respect of 39 cases. bills in respect of remaining 8 cases were not received by the Washerries.</p>

	<p>The contracts inter alia stipulated that if any accident of wagon, rolling stock, derailment, blocking of movement etc. occurred due to poor maintenance of the tracks, the contractor would be held responsible and penalty would be levied as per terms and conditions of the contracts of the contract to be decided by the Management.</p> <p>A scrutiny of 100 cases out of 185 incidents of derailment (barring 15 cases where proper replacement of the pathway materials could not be made in time by the Company) revealed that the derailment was caused due to the fault of the contractors, on account of various reasons like jamming of railway tracks by soil, coal dust, boulders, improper closing of the door of wagon and water logging etc. As result of this, BCCL had to incur expenditure of Rs.1.87 crore by way of charges paid to Railways for rerailment of the derailed wagons, apart from the contractual payments of Rs.1.27 crore made to the contractors during the said period. Surprisingly, in no case was the contractor held responsible.</p> <p>In every case of derailment, a Committee</p>	<p>It may be noted that three major sidings at Bhojudih, Patherdih and Dugda were constructed about 40 years back in the sixties and most of the other sidings were constructed more than 20 years back, and need huge investment for their proper upkeep and renewal. Due to acute financial crunch it has not been possible to adequately provide for replacement of damaged/worn out tracks, points, crossings, PW materials and ballast etc. which are essentially required for proper maintenance and upkeep of the Railway tracks for trouble free operation. As such in case of derailment due to shortage of spares/fittings, ballast etc. it is not possible to impose penalty on the maintenance contractor as it is the responsibility of BCCL to supply the same. In case of Moonidih-Mohuda assisted siding, the track maintenance is being done by the Railways for which they have submitted an estimate of Rs.48.62 lakhs (BCCL's share) in</p>	
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	<p>consisting of Railways representatives and Washery representatives examined the matter wherein the Company was held responsible for improper maintenance of track at washeries.</p> <p>While accepting the fact, the Management <i>inter alia</i>, stated (July 2003) that they had appointed a Fact Finding Committee to look into each incident of derailment and after getting the report of the Committee the needful would be done.</p> <p>Thus, by not enforcing the contractual clause against the private contractors, the company had to incur additional expenditure of Rs.1.87 crore towards rerailment charge.</p> <p>The matter was referred to the Ministry in June 2003, their reply was awaited (August 2003)</p>	<p>1999. However, due to paucity of fund only part payment of Rs.22.71 lakhs has so far been made in two phases, as a result Railways have not taken up full job as required and hence whenever derailments occur in this segment, responsibility for the same is generally fixed on BCCL. At Moonidih Washery some derailment also occurred due to absence of buffer which was not constructed initially. A new buffer has now been constructed which will eliminate derailment at buffer end.</p> <p>However, despite resource constraint every effort is being made to provide for materials for maintenance of the Washery sidings as far as possible. Also, instructions have been issued to the concerned officials to have proper joint study in case every derailment and incase of maintenance contractor's fault, responsibility will be fixed on them and necessary deductions from their bills in terms of the provisions in the contract</p>	
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		<p>agreement/work order will invariably be made.</p> <p>A committee was constituted by the then CMD vide reference No. CMD/ES/F-1(A)/03/1063 dated 5/8th July 2003 to examine the incidents of derailment that took place during the above period.</p> <p>Also, the committee is to examine the aspect as to who was responsible for such derailment and why penalty as per the contract was not imposed on the contractor and responsibility to be fixed for such lapses. Committee's report is still awaited.</p>	
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Action Taken Notes of Audit Report (Comml.) No. 3 of 2004

Audit Para No.	Audit observation	Action Taken Report by Companies/MOC	Vetting remarks of Audit.						
3.2.1	<p>Central Coalfields Limited. Wasteful expenditure of Rs.7.66 crore on diesel generating sets.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Two-DG sets were commissioned in 1999 to meet exigencies on account of anticipated higher demand of power supply due to forthcoming projects in Hazariabagh area. The DG sets have not been in operation since October 2000, resulting in wasteful expenditure of Rs.7.66 crore.</p> </div> <p>M/s Garden Reach Shipbuilders & Engineers Limited (GRSEL) commissioned 2 DG sets (3MW) in March 1999 against the contract value of Rs.8.83 crore awarded in July 1990. These sets were required as an alternate source of power supply during switching over of supply from Bihar State Electricity Board (BSEB) to Damodar Valley Corporation (DVC) and to meet shortages of power that the Central Coalfields Limited (Company) presumed in</p>	<p>There was acute shortage of power from BSEB(the supply agency to CCL) during 80th for which alternative arrangement has to be ensured. The poor availability of power from BSEB can be evident from the following figure:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;"><u>Year</u></th> <th style="text-align: center;"><u>No. of trippings</u></th> </tr> </thead> <tbody> <tr> <td>1. 1986-90 hours per day</td> <td style="text-align: center;">- 5-6</td> </tr> <tr> <td>2. 1991-92 hours</td> <td style="text-align: center;">1289 923</td> </tr> </tbody> </table> <p>CCL faced prolonged issue of unstable, erratic, unreliable power supply from BSEB resulting in loss of production, inundation of mines and safety of personnel. As</p>	<u>Year</u>	<u>No. of trippings</u>	1. 1986-90 hours per day	- 5-6	2. 1991-92 hours	1289 923	<p>The power supply situation in Hazaribag Area was improved after switching over from BSEB to DVC in 1992-93. But the DG sets were commissioned in March 1999 which could not be diverted or gainfully utilized in other projects. The Ministry has also accepted that in spite of all the efforts made the generators could not be put to use even as on date. No further comments to offer.</p>
<u>Year</u>	<u>No. of trippings</u>								
1. 1986-90 hours per day	- 5-6								
2. 1991-92 hours	1289 923								

<p>Hazariabagh area as well as meet anticipated higher demand of power that may arise due to coming up of Parez Coal Washery and Coal Handling Plant (CHP) in that area and for safety needs.</p> <p>Switching over of power supply from BSEB to DVC was completed in January 1992 without DG sets and since then, DVC had been meeting contractual demand of power as and when required by the Company.</p> <p>The DG sets scheduled for commissioning by October 1991 were taken over by the Company only in March 1999. The delay in installing DG sets as stated by the Management (March 2002) was due to delay in construction of powerhouse building that was done departmentally as well as due to law and order situation. The contractor was paid Rs.7.66 crore(April 2003). The DG sets were operated for only 90 hours during the years 1998-99 to September 2000. The DG sets could not be used since October 2000 as a result of breakdown (April 2003).</p> <p>Further the proposal for construction of Parez washery and CHP ;in that area were dropped in</p>	<p>such, CCL was forced to find out alternative source of stable power supply by following activities:</p> <p>Shifting to DVC power supply system from BSSEB Installation of fluidized bed thermal power Plant Installation of DG Generator Set</p> <p>Shifting of DVC was not feasible since BSEB was not agreeing to take direct power from DVC in BSEB command area.</p> <p>Installation of Thermal based Power Plant requires large investment and have long gestation period.</p> <p>The cheapest mode of power supply to cope up the shortage at the earliest possible time was to install DG Set. Accordingly, CCL ordered during 90's for installation of 2x3MW DG Set at Hazaribagh area.</p>	
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	<p>the Revised Project Report.</p> <p>The contention of the Management (September 2002) that the DG sets were commissioned because of safety requirement and also to maintain production in case of power failure was not tenable. The approval for the project was primarily because of the inadequate capacity of BSEB and to meet the exigency of switching over of power supply form BSEB to DVC. No action has been taken by the Management to have an alternative source of power to meet essential load in exigencies or for safety requirements till the DG sets were commissioned. Moreover, the fact that DG sets were operated only for a few hours and are under breakdown condition for more that two years indicates that the Management did not feel any such exigency. There was no shortage of power supply from DVC with the enhancement of contract demand.</p> <p>Thus, the objectives of installing DG sets have been frustrated and resulted in wasteful expenditure of Rs.7.66 crore.</p> <p>The matter was referred to the Ministry in April</p>	<p>In the meantime, with the pressure from Ministry DVC agreed for change over from BSEB to DVC source. The power supply situation in Hazaribagh area improved after change over from BSEB to DVC which materialized in 92-93.</p> <p>M/s GRSEL, which is a Public Sector Undertaking took considerable time for the executing order due to pre-mature failure of existing DG Set already supplied by them of another areas and also adverse Law & Order situation prevailing at the site. The DG Set was installed in March 1999 when the CCL has already shifted to DVC source of power supply. The DG Set could not be operated due to some deficiency for which Rs.1.17 crores was held up against the total contract. M/s GRSEL thereafter went for arbitration and</p>	
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	<p>2002, their reply was awaited (August 2003).</p>	<p>DG was operated only for few hours. Since the matter is sub-judiced, no action could be taken for repairing by outsourcing.</p> <p>Under the circumstances, it should not be construed that expenditure incurred on installation of DG sets was infructuous.</p> <p>In spite of all the efforts made from CCL end, the generators could not be put to use even as on today and the matter is still under arbitration.</p>	
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Action Taken Notes of Audit Report (Comml.) No. 3 of 2004

Audit Para No.	Audit observation	Action Taken Report by Companies/ MOC	Vetting remarks of Audit.
3.3.1	<p>Eastern Coalfields Limited Extra expenditure of Rs.3.11 crore due to procurement of Miners' Shoes on single tender basis.</p> <div style="border: 1px solid black; padding: 5px;"> <p>Eastern Coalfields Limited procured miners' shoes at higher rates on single tender basis without ascertaining the market price and rates of procurement of other subsidiaries and thereby incurred an extra expenditure of Rs.3.11 crore during the year 1998-99 to 2000-2001</p> </div> <p>Eastern Coalfields Limited(Company) incurred an Extra expenditure of Rs.3.11 crore during the year 1998-99 to 2000-2001 on procurement of Miners' Shoes at higher rates on single tender basis without ascertaining the market price and rates of procurement of other subsidiaries.</p> <p>The coal miners are being provided with miners</p>	<p>In the Tripartite Safety Committee meeting held in June, 1994, the members expressed their dissatisfaction over the shoes being provided to the miners by the management. In the meeting after deliberation it was agreed to consider providing BATA shoes to the miners/works.</p> <p>In the light of the above ECL was procuring Miners' Shoes from M/s Bata India Limited since 1994-95 with the approval of ECL Board. In the Functional Directors' meeting of 25th June, 1999 it was again decided to continue procurement of Miners' Boot from M/s Bata India Ltd.</p> <p>However, trial order was placed for</p>	<p>This portion is not related with the para as in the Para excess financial involvement during the period from 1998-99 to 2000-01 was considered. Hence no comments.</p> <p>In the subsequent meeting on 14.10.99, Functional Directors decided to explore alternative source of supply.</p>

shoes for working in the surface as well as underground mines. In 2001-02 the miners' shoes were purchased through open tenders. It was observed that till 2000-01, the Company procured miners shoes from a party on single tender basis at higher rates than the rates obtained by open tendering in 2001-02. Despite instructions from Board of Directors and other competent authorities, the Management did not initiate action to obtain competitive rates by open tendering or by exploring other alternate source. It was also observed that two neighboring sister subsidiaries procured miners shoes on competitive rates by inviting open tenders. The rates at which shoes were procured during that period by the other subsidiaries were between Rs.74.50 and Rs.78.92 per pair compared to the rates of Rs.227.00 and Rs.234.00 per pair paid by the Company.

It was only in January 2000 that the Company obtained rates from other manufactures which was found to be cheaper than the rates at which the Company procured the shoes on single tender basis. In spite of this, the Company did not change the procurement policy. Thereafter, only in 2001-02 based on the recommendation of the functional Directors to explore the possibility of

6000 pairs of Miners' Safety Boot on M/s Bengal Waterproof Limited, Kolkata on 7.6.2000 for supply of their DUCKBACK brand shoe and the conclusive performance report was available in February 2002. On the basis of management's decision in February, 2002 the procurement of Miners' shoes was made through open tendering as detailed below:

Open tender reference No. ECL/PUR/02/shoes/01-02 due on 5.4.02. Order was placed on L1 bidders M/s Bengal Rubber & Plastic Works, Kolkata, (98120n pairs), M/s Rescuer Corporation Kolkata (60000 pairs) vide Purchase Order No. 05822017(40) dt 15-05-02 amendment dt 21-06-02 @ Rs.72.50 per pair.

Open tender reference No. ECL/PUR/02/shoes/03-04/01 due on 7.3.2003 for procurement of Miners' shoes for 2003-04 and order was placed on L1 bidders M/s P.B.S. rubber manufacturer, 24 Parganas,

No comments except that date of Purchase Order no. 05822016(40) would be 15-05-02 instead of 15-06-02 as mentioned in the reply of the company.

	<p>procuring shoes from other manufacturer and at the instance of audit observation, the Company went for open tendering and obtained lower rates of Rs.69.50 and 72.50 per pair.</p> <p>Thus, due to placement of order on single tender, the Company had to incur an additional expenditure of Rs.3.11 crore in comparison to the rates of procurement of Bharat Coking Coal Limited (a subsidiary of Coal India Limited) on 4.07 lakh pairs of shoes..</p> <p>The matter was referred to the Management in March 2003, their reply was awaited (August 2003)</p>	<p>West Bengal (P.O. No. 05823070(40) dt 13-09-2003 for 1,64,852 Pairs @ Rs.68.670 per pair.</p>	
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Action Taken Notes of Audit Report (Comml.) No. 3 of 2004

Audit Para No.	Audit observation	Action Taken Report by Companies/MOC	Vetting remarks of Audit.
3.5.1	<p>Western Coalfields Limited Infructuous expenditure of Rs.8.02 crore.</p> <div style="border: 1px solid black; padding: 5px; margin: 5px 0;"> <p>The Company could not complete construction of Coal Handling Plant for ten years. As it decided subsequently that the CHHP was no more required, the expenditure of Rs.8.02 crore incurred thereon became infructuous.</p> </div> <p>Western Coalfields Limited (Company) incurred an expenditure of Rs.8.02 crore on construction of Coal Handling Plant (CHP) at Sasti open cast project. As the work could not be completed for ten years and the Company decided subsequently (March 2003) that the CHP was no more required, the total expenditure of Rs.8.02 crore became infructuous.</p> <p>The Company had awarded (February 1991) the work of construction of the CHHP to M/s Rehabilitation Industries</p>	<p>The Project Report (PR) and Revised Cost Estimate (RCE) were prepared by CMPDIL and approved by the Government in the year 1981 and September 1989 respectively. Provision of Coal Handling Plant (CHP) for maintaining proper quality, sizing, weighing and dispatch of coal was imperative as there was strong demand for sized coal from all consuming sectors. As such the PR and RCE both had the provision of CHP.</p> <p>The basic objective of CHP is to supply coal of proper quality and size after proper weighment. This benefits the Coal Companies by way of better sale realization and also because underloading and overloading charges to railway is minimized.</p> <p>The job of construction of CHP was</p>	<p>Statement of fact.</p> <p>Statement of fact.</p> <p>Statement of fact.</p>

	<p>Corporation Limited (Contractor) to be completed by August 1993. The contractor could not complete the work within the stipulated time and stopped the work in May 1996 on account of escalation, delayed payments, etc. Though the contractor recommenced (March 1997) the construction, it finally abandoned the work in August 1999. By this time, 90 per cent of the work had been completed and the Company had paid a sum of Rs.8.02 crore to the contractor. Although the contractor had become sick and gone into BIFR in October 2000, the Company did not show any urgency in completion of the CHP by awarding the balance work to another contractor. Meanwhile, the Company decided (March 2003) not to complete the balance work as the CHP was not required. As a result, the expenditure of Rs.8.02 crore incurred on the project became infructuous.</p> <p>Management stated (April 2003) that the CHP was no more required in view of non-availability of demand for washed coal, deferring the proposals for expansion of Sasti open cast project, etc.</p>	<p>awarded to M/s Rehabilitation industries Corporation Ltd, Calcutta (a Govt. of India Undertaking), in February 1991 as per the provision of the approved PR and RCE. As per the Work Order, the date of completion of CHP was 31st October 1994. The contractor could not complete the work within the stipulated time even after several time extensions the contractor could complete only 89.68% of the work by August 1999 and thereafter the contractor stopped the work.</p> <p>There was a provision of temporary CHP in PR and RCE in order to meet the immediate requirement of coal dispatch during the construction period of permanent CHP and railway Siding. This CHP is still catering to the need of dispatch of coal from Sasti OC mine.</p> <p>A coal Supply Agreement was signed on 17.04.2003 between WCL and M/s Karnataka Power Corporation Ltd(KPCL). As per this agreement WCL will supply 2.5 million tones of</p>	<p>There was provision of permanent CHP in PR and RCE. Management contention that CHP is still catering the needs of mine contemplates that permanent CHP was not at all required and hence the contention of audit holds good.</p> <p>This development occurred only in April 2003 which has no relevance on construction/requirement of CHP.</p>
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	<p>They reply is not acceptable, as the construction of the CHP was envisaged for maintaining proper quality, sizing , weighing and loading of coal and the reasons cited by the Management were not linked to the proposed CHP as such. Besides, the requirement for the work should have been assessed before the work was awarded and not when it was nearing completion.</p> <p>The matter was referred to Ministry in July 2003, their reply was awaited (August2003).</p>	<p>crushed ROM coal per annum by road to be washed by the washery operator appointed by M/s KPCL. No segregation of coal by sizes is envisaged any longer. Moreover, the Fuel Supply Agreement (FSA) provides for payment of incentive for improvement in coal quality beyond the mid point of the grade without any corresponding provision for bonus. This has the effect of enhancing the realization per tonne that annuls the impact of non-performance of the CHP. The Siding has also been handed over for supply of washed coal to M/s KPCL. Because of this development, the CHP is no more required to handle raw coal at Sasti Siding.</p> <p>In view of the above, it can be seen that the decision to construct a CHP was as per the established norm of implementation of a coal project where a CHP is always provided for maintenance of proper quality, size and proper weightment for the full satisfaction of the customers. During</p>	<p>The purpose of CHP was served by temporary CHP and there was no need of permanent CHP.</p> <p>Such a report has not been provided to audit.</p>
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		<p>the period of construction of CHP from 1992 till date conditions have changed significantly. There were no means to visualize these changes in advance during this period. Had this CHP been completed within its scheduled date i.e. October 1994, this could have served its purpose for which it was provided in the PR.</p> <p>As far as blocking of Rs. 801.77 lakhs (Rs. 625.37 lakhs + Rs. 179.40 lakhs) is concerned, it is informed that WCL is making all efforts to recover as much as possible from this incomplete CHP. In this respect a Committee was constituted. As per the Committee's report, a lot of Plant & machinery as well as structural material are available which can be used in other mines of WCL. However, the process of valuation of retrievable items is not yet completed.</p> <p>As far as the blocking of Rs.8.02 crore is concerned, WCL is making all efforts to recover the amount from M/s</p>	<p>.</p> <p>.</p> <p>No amount has since recovered</p> <p>Arbitrator's award is yet to be received</p>
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		<p>Rehabilitation Industries Corporation Limited, a Government Company(RIC), which was awarded the work of construction of CHP.</p> <p>As per the terms of agreement with RCI, in view of failure of RCI to complete the work in time and hand over the subject work to WCL, WCL has invoked the arbitration clause and appointed Shri P.D.Adgaonkar as Sole Arbitrator to resolve the disputes/claims raised by WCL. The first sitting of the arbitration sitting was held on 10.8.2004 and RCI also participated. It is therefore, expected that the issue would be settled through arbitration. In view of the above development and explanations given, commercial Audit is requested to consider settling the audit para.</p>	
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Item No.3.2.2

Central Coalfields Limited spent an amount of Rs.1.22 crore on construction of a bridge, which could not be utilized due to delay in construction of approach roads for transportation of coal, resulting in idle investment.

AUDIT MEMORANDUM	ACTION TAKEN BY THE MINISTRY	VETTED AUDIT'S REMARKS
<p>The Company awarded a work of construction of the bridge across river Damodar at a cost of Rs.1.20 crore. This was under advance action plan of Ashok Open Cast Project (OCP) to integrate the existing infra/structural facilities of the KD Hesalong Project and railway siding with the Ashok OCP and new project-Purnadih East (OCP).</p> <p>An approach road on the both sides of the bridge was also to be constructed. The management had proceeded with a tender for construction of the approach roads on both sides of the bridge in 1996, however, it was decided not to award the work till the physical possession of land for the road was obtained. As the construction period of the bridge was only twelve calendar months and its utility depended upon the construction of approach roads, the Management should not have awarded the contract for construction of the bridge before taking physical possession of the land.</p> <p>The work of construction (commenced in October 1993) of the bridge across the river Damodar was completed in January 1998 at a cost of Rs.1.22 crore, but the bridge could not be utilized (February 2003) in the absence of the approach roads on the both side of the river.</p>	<p>The contention of Audit that there will be no use of bridge in future is not factual. The bridge is being use by the local villagers and LMVs with existing Kucha Road. It is not being used now for coal transportation for want of permanent approach road but in future it will be useful for (a) Purnadih –OCP (0.6 MTY),which is going to be started soon. (b) Ashoka expansion OCP (6.5 MTY) for transportation of coal to KD/Dakra Siding and (c) Purnadih-OC II (2.0 MTY), which is a new project and is expected to come up during the XIth Plan.</p> <p>It is clearly apparent that due to poor planning and injudicious project execution the work of approach road could not be completed even after 6-7 years of construction of bridge.</p> <p>CCL had been advised and cautioned not to repeat this type of wasteful expenditure in future.</p>	<p>No further comments to offer.</p>

The management stated (October 2001) that though the approach road on the south side was under the physical possession yet the Forest Department had certain objections and in the Northern Bank, construction of the road was suspended due to agitation by the villagers for employment in the company as well as militancy and law and order problems.

The Ministry while accepting the fact (July 2002) has interalia stated that to overcome all these problems the construction of civil works and roads in these area was proposed to be entrusted to M/s Border Road Organization (BRO) based on future projection of coals projects. However, till February 2003 there was no progress on construction of approach roads.

It is therefore evident that due to poor planning and injudicious project execution the investment of Rs.1.22 crore made by the CCL on construction of the bridge across Damodar has yielded no result besides blocking up of fund to that extent involving recurring annual loss of interest of Rs.16.47 lakh p.a. (@13.5% p.a.) without any certainty of its use in the near future.

C&AG Report No.3 of 2004.

Audit Para No.3.4.1

Loss of Rs.7.25 crore due to negligence

Neyveli Lignite Corporation Limited (Company) failed to properly secure the crane by locking all parking devices to arrest any movement during a cyclone on 29 November, 2000 which led to collapse of the crane and resulted in a loss of Rs.7.25 crores. Further, the Company could not recover the loss through insurance, as the asset was not insured against the perils of nature.

The Company procured one 40/5 ton Gantry crane from M/s. Mukund Limited (Supplier) for Mine-I expansion project and after successful commissioning, the crane was taken over (August 1999) at a cost of Rs.8.93 crore. Though, the crane was functioning satisfactorily till noon of 29 November, 2000, it collapsed and got damaged beyond repairs on the same evening due to cyclone. The Committee constituted (November, 2000) to probe into the causes of the collapse of the crane held (March, 2001) the supplier responsible for failure to undertake erection in a proper manner. The Company requested (April, 2001) the supplier to replace the damaged crane or provide necessary compensation. However, the supplier refused (April, 2001) to entertain the Company's request either for compensation or for replacement of the crane. The supplier in response to the notice issued (September, 2001) by the Company informed that crane was designed to withstand the wind speed of 203 Kmph whereas the wind velocity on the fateful day was only 104 Kmph. The supplier further added that crane was not secured before the impending cyclone, by locking all the parking devices and thus, cause of the collapse was negligence on the part of the Company. After supplier refused to replace the crane or to compensate the Company, it invoked the arbitration clause against the supplier. Arbitration proceedings were still under progress (May, 2003).

The Company stated (May, 2003) that collapse of the crane was not due to their negligence, since proper erection had to be ensured by the supplier and action for recovery of the loss was under progress.

The reply is not tenable as the Company should have anchored the crane hooks with dead weight which was the normal procedure during storm.

Thus, the negligence of the company in not securing the crane as per operating instructions resulted in a loss of Rs.7.25 crore after adjusting salvage value including spares (Rs.45.61 lakh), depreciation (Rs.56.56 lakh) and encashment of bank guarantee (Rs.66 Lakh). The negligence also resulted in unnecessary costly litigation.

The matter was referred to the Ministry in March, 2003; their reply was awaited (August, 2003).

Action Taken Note

NLC had taken all precautionary measures in locking the crane as per the instructions provided in the Operations and Maintenance manual furnished by the supplier. The manual does not prescribe anchoring of the crane hooks with dead weight. As regards insurance of the crane, it may be noted that the crane was under warranty period at the time of the incident, therefore, NLC did not go for insurance of the crane.

Since the crane collapsed before the expiry of the warranty period, it is the supplier's responsibility to replace the crane or compensate the cost of the crane as per the terms and conditions of the contract. NLC has invoked arbitration clause and the proceedings in the matter are under progress. The outcome of the arbitration will be communicated by NLC in due course.

Vetting Remarks of the Audit

The Enquiry Committee's Report suggested that normally as a precautionary measure, the crane hooks are to be anchored with dead weight at the time of cyclone. This was not done by NLC. Hence the reply is not acceptable.

Revised Action Taken Note

Though the Enquiry Committee's Report suggested that normally as a precautionary measure, the crane hooks are to be anchored with dead weight at the time of cyclone, NLC did not do so as no where in the manual for this 40T Crane, entering of the crane hooks with dead weight is specified. The crane being under warranty period, it was mandatory to follow the precautionary measures as specified in the supplier's operation manual for securing the crane until the completion of warranty period. In case of any deviation from the specified precautions, the supplier could absolve their responsibility under warranty and the company could not claim the same.

It is added that for all major/huge equipments, normally NLC take the precautionary measures specified by the supplier based on the design requirement of the equipment. In this case also, the company took all the precautionary measures for securing the crane during stormy conditions.

Further Vetting Remarks of the Audit

The Enquiry Committee's Report referred to failure to take the required precautionary measures even when it was known that cyclone was going to hit Neyveli. The ATN is not acceptable.

(ii) Further ATN on this subject may be furnished direct to COPU.

Latest Status

NLC has been asked to furnish revised Action Taken Note on the audit para.

Audit Para No.3.4.2

Idle investment of Rs.4.50 crore on Distributed Digital Control System

The company closed operation of its Briquetting and Carbonisation (B&C) and Fertiliser plants in April, 2001/February, 2002. This rendered the new Distributed Digital Control System (DDCS) involving an investment of Rs.4.50 crore idle out of which Rs.1.07 crore, the cost of DDCS towards dismantled Boiler II, was infructuous. The Company considered all the three Boilers of the Process Steam Plant (PSP), Electro Static Precipitators (ESP) units meant for pollution control and the DDCS as impaired assets and created provision in the accounts for 2002-03.

An explosion occurred (September 1998) in ESP unit of Boiler II and damaged Boilers No.I and III and control room of PSP also. All the three Boilers of PSP were shutdown, while ESP of Boiler No.I and III were repaired and brought back to service in October, and November, 1998 respectively, ESP II was dismantled (December, 2001) but erection work was not taken up. Even though the Company was holding discussions with ICICI Limited since August, 1999 on commercial feasibility of continuing the operations of B&C and Fertilizer Plants, it did not consider this while awarding (October, 1999) work in installing the DDCS. The Company commissioned the DDCS for Boiler I & III in October and September, 2000 respectively but the DDCS for II could not be put to use due to non-commissioning of Boiler II. As the operation of B&C and Fertilizer Plants was closed in April, 2001/February 2002, DDCS have been lying idle since then.

Management stated (July 2003) that due to uncertainty regarding resumption of plant operations further works on ESP II could not be decided upon and hence the DDCS for Boiler II could be commissioned. They further added that there was no definite sign of closure of SPS at the time of placement of order for DDCS and the system could be put to effective use in other units which was being pursued.

The reply is not tenable as the procurement of DDCS lacked justification since the commercial feasibility of continuity of the operation of B&C and Fertilizer plants were not definite in view of mounting losses and the Company had already been contemplating (August, 1999) the closure of the plant at the time of awarding the work of DDCS. No proposal for alternative use has been finalised so far (July, 2003).

The matter was referred to the Ministry in July, 2003; their reply was awaited (August, 2003).

Action Taken Note

The fire in the Process Steam Plant had completely damaged the control and instrumentation system of all the three boilers. However, NLC resumed the boiler operations within a short time from makeshift control room with discrete instruments from other units. NLC, later on, decided to introduce modern DDCS having advance features and accuracy in monitoring and control. The procurement of DDCS could not be deferred since the boiler operations had to be resumed immediately to ensure continuity of production of steam to cater to the requirements of fertiliser and B&C plants. The old analogue system was not preferred by NLC because the DDCS would have ensured better accuracy and availability of spares.

NLC had placed procurement orders on 7.10.99 after obtaining Board's approval. However, due to certain changes in contract terms and conditions requested by the supplier, the order could be executed only after 13.3.2000. The commissioning of DDCS for first and third boilers was completed by November, 2000 and erection of DDCS for second boiler was completed by December, 2000 awaiting final hook up. The commissioning of DDCS for second boiler could not be completed since the ESP of boiler was not ready due to fire in the unit.

While NLC was in process of awarding repair works to the bidder selected through tendering process, the original supplier submitted its offer for warranty repairs. In the meantime, the B&C plant was shut down and operations of the Fertilizer plant stopped by February, 2002. Due to uncertainty in revival of plant operations, further works on second ESP could not be decided

upon. With the closure of fertiliser plant in January, 2003, the repair works for second ESP and commissioning of the DDCS for second boiler were not necessitated. Therefore, DDCS could not be commissioned.

There were no definite signs of closure of PSP at the time of placement of orders for erection and commissioning of DDCS for first and third boilers and NLC hoped to bring back second ESP within a reasonable time. Only subsequent events led to the non-commissioning of DDCS for second boiler.

As regards alternative use, some of the field instruments of DDCS such as Pressure/Temperature/Flow Transmitters, Totalizers have been issued to Thermal Power Stations-I and II during October, 2003 and February, 2004 for effective utilization there. The remaining field instruments are also being shifted to Thermal Power Station I and II. Certain other spare items of DDCS are also planned to be used in Thermal Power Stations. The usage of main processor is also being studied by NLC.

Vetting Remarks of Audit

The award for installation of the DDCS was made in October 1999 even when the Company were contemplating (August 1999) the closure of the B&C and Fertilizer Plant. DDCS could not be used for intended purpose. Hence the reply is not acceptable.

Revised Action Taken Note

NLC was not contemplating the closure of the Plants as a study was undertaken by M/s ICICI at that time to examine the viability options of the Chemical Plants, not with the outright intention to close the Plants but to find out how best the operations could be continued. This is evident from NLC's continuance of the Fertilizer Plant operations till the introduction of Govt.'s group pricing policy on urea. Even after the policy was proposed to be introduced, NLC continued the operations till it was

actually introduced. Had the introduction of the group pricing been delayed, NLC would have prolonged the operations of Fertilizer further.

It is once again reiterated that NLC had intended to bring back the second boiler into service with DDCS. However, the subsequent events led to the non-commissioning of DDCS for second boiler.

Latest Status

The revised ATN has been sent to audit for vetting.