

CHAPTER IX: MINISTRY OF FINANCE

9.1 Under-utilisation of capacity of Mint

The India Government Mint, which became operational in 1988, has still not established a blanking line. This has resulted in continued import dependence. The capacity of the Mint has been grossly underutilised and in the import of coin blanks the Mint has failed to enforce the liquidated damages due to delay and miscalculation.

Government of India decided to set up a new Mint, India Government Mint, Noida which became operational in 1988. Since July 1988 the Mint is engaged in the production of coins by stamping ready-made coin blank, either purchased indigenously or obtained through direct import. The Mint was designed, like other Government Mints at Mumbai, Kolkata and Hyderabad to operate with its own blanking line so that excessive dependence on import of coin blanks was avoided. Necessary infrastructural facilities were created with the establishment of the Mint, and the full complement of staff for two-shift operation was also sanctioned. Mint initiated its proposal for establishment of blanking line only in December 1996 and the proposal is still under the consideration of the Government of India. Non-establishment of blanking line has resulted in the import of ready-made coin blanks, leading to a loss of foreign exchange of the equivalent of Rs 38.39 crore on account of conversion cost from Cupro-Nickel to coin blanks of the denomination of Rs 2 and Rs 5 during the period 1994-2000. The Ministry stated in March 2001 that a blanking line at the Mint would be considered after the completion of the modernisation project undertaken at three other Mints located in Kolkata, Mumbai and Hyderabad. Evidently the Mint was established without considering the functional synergies. The consequences of non-establishment of blanking line could be substantial, apart from loss of foreign exchange, if the idle assets are reckoned. In respect of manpower alone it was noticed that the Mint was operating on a single shift while staff was sanctioned for operating in two shifts.

Investigation of the deployment pattern and volume of production brought out that the production capacity of the Mint which is 2000 million pieces of coins *per annum* is underutilised. Utilisation of production capacity ranges between 16.79 *per cent* and 45.06 *per cent*. Under-utilisation of production capacity is in turn a direct consequence of lower target-setting by the Ministry. The targets fixed by the Ministry ranged between 20 and 45 *per cent* of the capacity of the Mint. It is also significant that targets fixed by the Ministry were themselves low with reference to the demands placed by the Reserve Bank of India (RBI) on the Mints. The following table gives the comparative analytical position:

Coins in million pieces

Year	Demand of RBI (consolidated demand for all four mints)	Target fixed by Ministry	Percentage of target with reference to capacity	Actual production of coin by Mint	Percentage of actual production to capacity
1991-92	2075	500	25.0	488.330	24.42
1992-93	3050	500	25.0	458.960	22.95
1993-94	3200	500	25.0	335.895	16.79
1994-95	4100	410	20.5	555.031	27.75
1995-96	4950	480	24.0	402.482	20.12
1996-97	6295	500	25.0	382.474	19.12
1997-98	6939	500	25.0	556.457	27.82
1998-99	9050	850	42.5	810.421	40.52
1999-00	8710	900	45.0	901.256	45.06

Until 1997-98 the targets fixed by the Ministry continued to be in the range of 400-500 million pieces while the demand of RBI rose from 2075 million pieces to 6939 million pieces. During the years 1998-99 and 1999-2000 the targets were raised upto 850-900 million pieces while the demand of RBI was in the range of 9000 million pieces. The Mint could meet the higher targets fixed by the Ministry but that amounted to barely 10 *per cent* of the demands placed by the RBI. It is interesting to observe that during the year 1998-99 the Mint spent Rs 20.94 lakh on overtime allowance and Rs 25.36 lakh in providing incentives to the industrial staff for achieving a target which was far below its built-in capacity and even further below the demands placed by the RBI. The Ministry stated in February 2001 that the demands of RBI have been usually on the higher side and the actual lifting of finished coins was low. Reply of the Ministry is not factually correct as the RBI had lifted the coins produced in full from time to time.

Purchase of coin blanks

Even in the actual production of coins, irregularities were noticed in the purchase of coin blanks. During the period 1988-89 to 1999-2000 the Mint imported Rs 25446.16 lakh worth of coin blanks and procured indigenous coin blanks worth Rs 14011 lakh (**Annex-A**). The percentage of import of blank coins with the total of blank coins purchased stood at 64 *per cent*. Scrutiny of the import procedure adopted by the Mint brought out several instances of delay in the finalisation of tenders, non/late recovery of liquidated damages etc.

Delay in finalisation of tenders

Audit scrutiny revealed that the Mint took seven months to two years in finalising the global tenders for the purchase of coin blanks of the denominations of Rs 5, Rs 2, Re 1, 50 p, 25 p and 10 p (**Annex-B**). This resulted in shortfall in production of Rs 5 and Rs 2 coins during 1996-97 and 1998-99 as detailed in **Annex-C**. The shortfall in production of Rs 5 coin went

upto 60 *per cent* of the production target during 1996-97. The Ministry stated in March 2001 that when coin blanks of these denominations were not available, the Mint was engaged in the production of other coins and hence there was no loss of capacity. The argument is evasive as shortages in the coins of one denomination cannot be justified by the production of coins of other denomination. Audit is unable to assess the impact of non-production of coins of these denominations on the transaction market but it stands to reason to assume that recurring evidences of non-availability of coins of different denominations could be the result of delays in placing orders for blank coins.

Non-recovery of liquidated damages

It was also seen that liquidated damages amounting to Rs 12.37 crore were not claimed, though due, in four cases (**Annex-D**). Of these in three cases, where imports were made from British and Korean firms the Ministry contested the audit figures without providing any alternative calculation. Audit figures are worked out separately for each consignment in each case. As regards the fourth firm, a Mexican firm, the Ministry held the incorrect view that liquidated damages were not recoverable. As per the contract, liquidated damages of the order of Rs 0.31 crore were leviable as the firm had failed to discharge the contractual commitment.

In three cases while the imports were made from Canadian, Italian and British firms, liquidated damages claimed by the Mint were either not recovered (Rs 10.41 crore) or recovered only partially (Rs 1.35 crore against Rs 1.42 crore). Rs 10.30 crore of liquidated damages could not be enforced on a Canadian firm because the Ministry advised the Mint to drop the proceeding on the ground that delay in acceptance of samples was not covered in the contract and no notice to that effect was ever issued to the Canadian firm. It is surprising that a serious administrative failure leading to substantial financial loss should be handled on the ground of legality without fixing responsibility for dereliction. In respect of an Italian firm miscalculation of liquidated damages resulted in the Mint foregoing Rs 7 lakh, which was due to it.

In a very significant case of mishandling of claims it was noticed that damages of Rs 1.6 crore could not be recovered from a British firm despite the fact that there was delay of more than two years in the supply of coin blanks. The British firm was to supply 1200 metric tonnes of coin blanks by July 1998 however, the supply was completed by January 1999 and liquidated damages were claimed only in January 2001 for only Rs 11.47 lakh instead of Rs 1.6 crore which was due. In the meantime the bank guarantee of the firm lapsed in June 1999 leaving the Mint and the Government with no option but to pursue the settlement of only a fraction of the legitimate claim.

Non-reimbursement of inspection charges

As per terms of contract, the supplier would provide for the purchaser facility for the inspection of coin blanks manufactured under the contract at its works. Instances of Mint not claiming reimbursement of inspection charges were noticed. The Mint failed to claim reimbursement of Rs 3.32 lakh in two cases

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while in six other cases reimbursement of claims of Rs 6.95 lakh was pressed from nine to 37 months after the completion of inspection.

Annex-A

Year	Value of coin blanks imported	Value of indigenous coin blanks purchased	Total Value of coin blanks purchased	Percentage of import to total purchase
1988-89 to 1992-93	8963.16	-	8963.16	100.00
1993-94	-	2383.00	2383.00	-
1994-95	2829.00	1226.00	4055.00	69.77
1995-96	2173.00	405.00	2578.00	84.29
1996-97	1719.00	4523.00	6242.00	27.54
1997-98	634.00	1168.00	1802.00	35.18
1998-99	4572.00	2116.00	6688.00	68.36
1999-00	4556.00	2190.00	6746.00	67.54
Total	25446.16	14011.00	39457.16	64.48

Annex-B

Sl. No	Name of the firm	Particulars of coin blanks to be supplied	Date of advertisement of global tender	Date of awarding the contract	Time taken in finalisation of contract
1	M/s Royal Mint, U.K	206.66 million pieces of Rs 5 denominations	23.9.93	22.7.94	10 months
2	M/s I.M.I, Birmingham Mint Ltd., UK	133.33 million pieces of Rs 5 denominations	23.9.93	22.7.94	10 months
3	M/s Hyundai Corporation, South Korea	360 million pieces of Rs 2 denominations	23.9.93	22.7.94	10 months
4	M/s Istituto Polgraphico E Zecca Dello Stato, Italy	816 million pieces of Re 1, 50p, 25p and 10p denominations	23.6.94	11.1.95	6 ½ months
5	M/s Salem Steel Plant, Salem	235 million pieces of Re1, 50p and 25 p	23.6.94	23.6.95	12 months
6	M/s Royal Canadian Mint, Canada	200 million pieces of Rs 5 denomination	10.6.96	1.9.97	14 ½ months
7	M/s Royal Mint, U.K	200 million pieces of Rs 2 denomination	10.6.96	1.9.97	14 ½ months
8	M/s PDC, Mexico	206 million pieces of Re 1 denominations	10.6.96	14.5.98	23 months
9	M/s Salem Steel Plant, Salem	749 Million pieces of Re 1, 50 p and 25 p denominations	10.6.96	26.5.98	23 ½ months

Annex-C

Year	Particulars of denomination	Targets	Achievements	Percentage of fall in production to targets
		(In million Pieces)		
1996-97	Rs 2	50	40.2870	19.43
	Rs 5	50	19.8700	60.26
1998-99	Rs 2	160	155.1275	03.05
	Rs 5	120	71.0220	40.82

Annex-D

Sl. No	Name of supplier	Particulars of contract	Delay in supply of Pre-production samples			Delay in last shipment			Total period of delay for which liquidated damages have become due			Amount of liquidated damages due	Amount of liquidated damages claimed	Amount of liquidated damages recovered	Amount of liquidated damages remained to be claimed/ recovered
			Y	M	D	Y	M	D	Y	M	D				
1	M/s Royal Mint, U.K (1994-95) Optional order of 930 MT placed on 27.06.96	No IGM/GPT/CN/ Rs 5 (RML)/1994 dated 12.12.94 Supply of 1860 MT (206.66 mpcs) of coin blanks of Rs 5	00	07	09	-	07	29	05	03	13	1096300.59 (Pound sterling) equivalent to Rs 7.62 crore	-	-	1096300.59 (Pound sterling) equivalent to Rs 7.62 crore
2	M/s IMI Birmingham Mint Ltd., U.K. (1994-95) Optional order of 600 MT placed on 27.06.96	No IGM/GPT/CN/ Rs5(IMI) /1994 dated 24.11.94 Supply of 1200 MT(133.33 mpcs) of Rs 5 coin blanks	00	08	22	-	04	23	03	06	10	406253.76 (Pound Sterling) equivalent to Rs 2.82 crore	-	-	406253.76 (Pound Sterling) equivalent to Rs 2.82 crore
3	M/s Hyundai Corporation, South Korea, (1994-95) Optional order of 540 MT placed on 31.10.95	No IGM/GPT/CN/ Rs 2 (Hyundai)/ 1994 dated 21.11.94 Supply of 2160 Mt (360 mpcs) of Rs 2 coin blanks	00	02	15	00	01	00	01	02	04	371397.41 US\$ equivalent to Rs 1.62 crore	-	-	371397.41 US\$ equivalent to Rs 1.62 crore

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			Delay in supply of Pre-production samples			Delay in last shipment			Total period of delay for which liquidated damages have become due						
4	M/s Istituto Poligrafico E Zecca Dello Stato (Rome Mint) Italy (1994-95) Optional order of 1639 MT placed on 27.06.96	No IGM/GPT/SS/ 1994-95 dated 17.02.95 Supply of 3277.5 MT (816 mpcs) of Re1/50p/25p/10p SS coin blanks	00	04	00	00	01	13	01	08	08	604472414.33 (Lira) equivalent to Rs 1.42 crore	582280922 (Lira) equivalent to Rs 1.35 crore	582280922 (Lira) equivalent to Rs 1.35 crore	22191492.33 (Lira) equivalent to Rs 0.07 crore
5	M/s Royal Canadian Mint, Canada (1997-98)	No IGM/CN/RCM/ 97 dated 9/12/97 Supply of 1800 MT (200mpcs) of Rs 5 coin blanks	00	08	18	01	02	06	06	02	09	2363262 (US\$) equivalent to Rs 10.30 crore	2363262 (US\$) equivalent to Rs 10.30 crore	Nil	2363262 (US\$) equivalent to Rs 10.30 crore
6	M/s Royal Mint , U.K (1997-98)	No IGM/GT/CN/ Rs 2 (RM)/1997 dated 30.12.97 Supply of 1200 MT (200 mpcs) of Rs 2 coin blanks	00	06	17	00	05	09	02	02	00	230357.30 (Pound Sterling) equivalent to Rs 1.60 crore	16505.15 (Pound Sterling) equivalent to Rs 0.11 crore	Nil	230357.30 (Pound Sterling) equivalent to Rs 1.60 crore
7	M/s PDC Mexico (1997-98)	No IGM/GT/SS/ Re1 (PDC)/1998 dated 15.7.98 Supply of 1000MT (206 mpcs) of Re 1 coin blanks	00	01	03	00	01	20	00	04	09	71618.21 (US\$) equivalent to Rs 0.31 crore	-	-	71618.21 (US\$) equivalent to Rs 0.31 crore

9.2 Payment of overtime allowance beyond the permissible norm

General Manager, India Security Press made overtime payment of 160 hours per month to all staff members during 1995-2000 against the permissible limit of only 50 hours per quarter. Excess overtime allowance for the aforesaid period aggregated to Rs 99.43 crore.

Scrutiny of overtime expenditure in India Security Press (ISP), Nashik during the years 1995-2000 disclosed that the General Manager (GM) paid overtime allowance of 160 hours every month to its 5695 supervisory and non-supervisory staff and workers. The annual overtime payments, which were 40.32 per cent of the expenditure on pay and allowances and wages of the employees during 1995-2000, were as under:

Year	Expenditure on overtime payment (Rs in crore)
1995-96	14.64
1996-97	16.62
1997-98	23.57
1998-99	28.62
1999-2000	28.27
Total	111.72

In granting overtime allowance for as high as 480 hours in each quarter, the GM continuously infringed the Section 64 of Factories Act, 1948 which forbids giving overtime of not more than 50 hours in a quarter.

The value of overtime payment beyond the maximum limit prescribed in the Factories Act was Rs 99.43 crore out of the total payment of overtime Rs 111.72 crore.

The Ministry accepted the audit observation and admitted that they needed to rectify the phenomenon.

9.3 Loss due to non-inclusion of interest clause in the agreement

The Ministry of Finance (MOF) accorded administrative approval and expenditure sanction of Rs 30.99 crore on 9 May 1996 revised to Rs 37.19 crore on 16 June 1999 for incurring expenditure towards civil works in connection with modernisation of Currency Note Press (CNP). The project was to be executed through National Building Construction Corporation Ltd.(NBCC) on turn key basis. The sanction stipulated the CNP to follow Central Public Works Department (CPWD) Rule for giving advances to NBCC, which prescribes for charging interest @ 18 per cent per annum on the outstanding amount of advance.

An agreement was signed on 22 November 1996 between MOF and NBCC for the execution of the works. CNP paid mobilisation advance of Rs 3.54 crore to

NBCC on 31 March 1997. CNP, however, did not include this 'interest clause' on 'mobilisation advance' in the agreement. The absence of the provision of interest clause in the agreement resulted in a loss of Rs 86 lakh.

CNP stated in July 2000 that though the entire mobilisation advance had been adjusted through running bills but the interest could not be recovered because they had failed to incorporate the said clause in the agreement.

Audit reported the matter to the Ministry in October 2000; who have not replied as of February 2001.

9.4 High wastage in production of blank passports

The India Security Press, Nashik indulged in abnormally high wastage of Rs 15.80 crore in production of blank passports during 1997-99 and passed the burden to the public.

The India Security Press, Nashik (ISP) produced 63.90 lakh passport booklets during 1997-99. Out of these passports, ISP despatched 45.86 lakh blank passports worth Rs 55.95 crore, to Ministry of External Affairs, and declared the balance 18.04 lakh passports costing Rs 15.80 crore as defective. The cost of wastage was ultimately passed on to the public. Defective passports produced by ISP worked out to 28.23 *per cent*.

While accepting the facts (July 1999), the Ministry attributed the reasons for wastage, mainly to (i) over utilisation of the machines and manpower capacity to meet the increased demand (ii) operations in night shifts and (iii) diversion of unskilled labour to this work.

In order to meet the increased requirement of about 30 to 35 lakh passports, to reduce the wastage and to phase out manual system, the ISP had installed a new "Automated Passport Manufacturing System (APMS)" in April 1999. The ISP, Nashik decided in January 1990 to procure a fully APMS and invited global tenders in June 1990 and again in September 1993. These tenders were scrapped as they were not as per World Bank guidelines. ISP therefore, invited tenders (through Security Printing Press (SPP), Hyderabad) again in May 1995. Two firms were qualified tenderers (i) M/s. Uno Seikakushu Ltd. quoted for Rs 9.22 crore at wastage rate of 2 *per cent* and (ii) M/s. Kulger Automation for Rs 8.39 crore at wastage rate of 0.8 *per cent*. The ISP placed the order on M/s. Kulger Automation in September 1997. The terms and condition of the order *inter alia* included that (i) the inspection of machine would be carried on 20,000 booklets by using raw material supplied by ISP at the factory in Germany and (ii) overall waste percentage would not exceed 0.8. In case waste percentage exceeded the limit or passport booklets were not as per the specifications, the machine was liable to be rejected. The machine was brought to ISP and installed in April 1999 and tried for 20,000 passport booklets when the waste percentage turned out to be 5.10. However, the machine was finally accepted.

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The audit scrutiny revealed that during the period from June 1999 to April 2000, the machine produced an average of 1.89 lakh booklets per month with an average waste percentage at 9.5 ranging between 12.42 and 6.68. This worked out to 20.53 lakh booklets per year as against the requirement of 30 to 35 lakh.

Ministry stated in July 2000 that Audit had considered the overall wastage and not the effective wastage at each stage. The reply of Ministry was not tenable as the fact remained that the overall wastage continued to be as high as 9.5 per cent as compared to 0.8 per cent specified. Besides, abnormal delay in the process of procurement of APMS, the expected results in regard to increase in production and reduction of wastage were not fully achieved.

Department of Economic Affairs

9.5 Irregular payment of pension

Erroneous application and interpretation of rules and orders of pension payment by Public Sector Banks resulted in irregular payment of pension of Rs 27.65 lakh.

The Scheme for payment of pension through Public Sector Banks (PSBs) was introduced initially in July 1976 for the Central Civil Pensioners and subsequently extended to Railway Pensioners, Defence Pensioners, Freedom Fighters and West Bengal State Government Pensioners in a phased manner.

Mention was made in para 7.9 of the Audit Report 1 of 1996 that the PSBs in 401 cases, made overpayment and short payment of pension of Rs 27.61 lakh and Rs 11.80 lakh respectively. The Ministry stated in the Action Taken Note (ATN) that due to shortage of staff, detailed scrutiny of pension disbursement by PSBs could not be taken up.

Scrutiny of records of 69 pension paying branches of seven PSBs in West Bengal from July 1999 to March 2000 revealed overpayment of Rs 16.70 lakh during January 1986 to February 2000 due to the following reasons:

Table-I

Sl. No.	Reasons for overpayment	No. of cases in which over payment was made	Amount (Rs in lakh)
1.	Payment of Family Pension at higher rate beyond admissible period and to ineligible members	103	13.28
2.	Incorrect application of Pay Commission Rules	17	2.47
3.	Other Reasons	7	0.95
Total		127	16.70

It was further observed that in the following cases the pension paying PSBs also made short payment of Rs 10.95 lakh to the pensioners between January 1986 to February 2000.

Table-II

S1. No.	Reasons for short payment	No. of cases in which short payment was made	Amount (Rs in lakh)
1.	Erroneous consolidation of pension as per Pay Commission Rules	42	2.14
2.	Payment of family pension at reduced rate	73	8.81
Total		115	10.95

Thus, failure of the pension paying PSBs to apply and interpret rules and orders of payment of pension coupled with inadequate checks resulted in irregularities in payment of pension of Rs 27.65 lakh.

Audit reported the matter to the Ministry in August 2000; who have not replied as of February 2001.

9.6 Follow up on Audit Reports

Despite repeated instructions/recommendations of the Public Accounts Committee, the Ministry did not submit remedial/corrective Action Taken Notes on eight Audit Paragraphs.

Review of outstanding Action Taken Notes (ATNs) on paragraphs included in the Reports of the Comptroller and Auditor General of India - Union Government (Civil) as of October 2000 revealed that the Ministry has failed to

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submit ATNs in respect of eight Paragraphs included in the Audit Reports up to and for the year ended March 1999 as detailed below :

Number and year of the Audit Report	Paragraph number	Department	Subject
1 of 1995	8.8	Revenue	Idle engines purchased for prototype patrol boat
1 of 1995	8.9	Revenue	Unfruitful expenditure due to non-operational vessel
1 of 1996	7.7	Revenue	Loss due to short recovery of rent
2 of 1998	5.7	Revenue	Non-realisation of penalties
2 of 1999	5.4	Revenue	Erroneous payment of stamp duty and registration fees
2 of 2000	9.5	Economic Affairs	Recovery at the instance of Audit
2 of 2000	9.6	Revenue	Excess payment of night duty allowance
2 of 2000	9.7	Revenue	Loss due to failure to revise rates of license fee

Audit reported the matter to the Ministry in December 2000; who have not replied as of February 2001.