

Chapter I

1. Overview of State Public Sector Undertakings

Introduction

1.1 The State Public Sector Undertakings (PSUs) consist of State Government Companies and Statutory Corporations. The State PSUs are established to carry out activities of commercial nature while keeping in view the welfare of people. In West Bengal, the State PSUs occupy an important place in the state economy. The State PSUs registered a turnover of Rs. 17,304 crore for 2008-09 as per their latest finalised accounts as of September 2009. This turnover was equal to 5.59 *per cent* of State Gross Domestic Product (GDP) for 2008-09. Major activities of West Bengal State PSUs are concentrated in power and manufacturing sector. The State PSUs incurred a loss of Rs. 77.21 crore in the aggregate for 2008-09 as per their latest finalised accounts. They had employed 72,930* employees as of 31 March 2009. The State PSUs do not include eight prominent Departmental Undertakings (DUs), which carry out commercial operations but are a part of Government departments. Audit findings of these DUs are incorporated in the Civil Audit Report for the State.

1.2 As on 31 March 2009, there were 95 PSUs as *per* the details given below. Of these, only one company[§] was listed on the stock exchange(s).

Type of PSUs	Working PSUs	Non-working PSUs [¶]	Total
Government Companies [♦]	63	22	85
Statutory Corporations	09	01	10
Total	72	23	95

1.3 During the year 2008-09, two newly incorporated companies viz. Sundarban Infrastructure Development Corporation Limited and West Bengal Green Energy Development Corporation Limited came within the audit purview of Comptroller and Auditor General of India and audit of another company i.e. Lily Products Limited, incorporated in April 2004, was also entrusted to CAG.

* As per the details provided by 73 PSUs. Remaining 22 PSUs did not furnish the details.

§ WEBFIL Limited

¶ Non-working PSUs are those which have ceased to carry on their operations.

♦ includes 619-B companies.

Audit Mandate

1.4 Audit of Government companies is governed by Section 619 of the Companies Act, 1956. According to Section 617, a Government company is one in which not less than 51 *per cent* of the paid up capital is held by Government(s). A Government company includes a subsidiary of a Government company. Further, a company in which 51 *per cent* of the paid up capital is held in any combination by Government(s), Government companies and Corporations controlled by Government(s) is treated as if it were a Government company (deemed Government company) as per Section 619-B of the Companies Act.

1.5 The accounts of the State Government companies (as defined in Section 617 of the Companies Act, 1956) are audited by Statutory Auditors, who are appointed by CAG as per the provisions of Section 619(2) of the Companies Act, 1956. These accounts are also subject to supplementary audit conducted by CAG as per the provisions of Section 619 of the Companies Act, 1956.

1.6 Audit of statutory corporations is governed by their respective legislations. Out of ten statutory corporations, CAG is the sole auditor for Calcutta State Transport Corporation, South Bengal State Transport Corporation, North Bengal State Transport Corporation, West Bengal Scheduled Castes and Scheduled Tribes Development and Finance Corporation, West Bengal Minorities Development and Finance Corporation, West Bengal Industrial Infrastructure Development Corporation and West Bengal Backward Classes Development and Finance Corporation. In respect of West Bengal State Warehousing Corporation, West Bengal State Financial Corporation and Great Eastern Hotel Authority the audit is conducted by Chartered Accountants and supplementary audit by CAG.

Investment in State PSUs

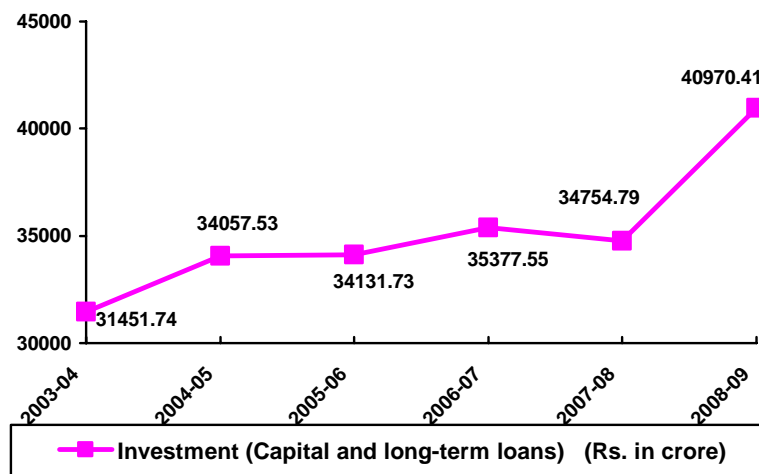
1.7 As on 31 March 2009, the investment (capital and long-term loans) in 95 PSUs (including 619-B companies) was Rs. 40,970.41 crore as per details given below.

(Rs. in Crore)

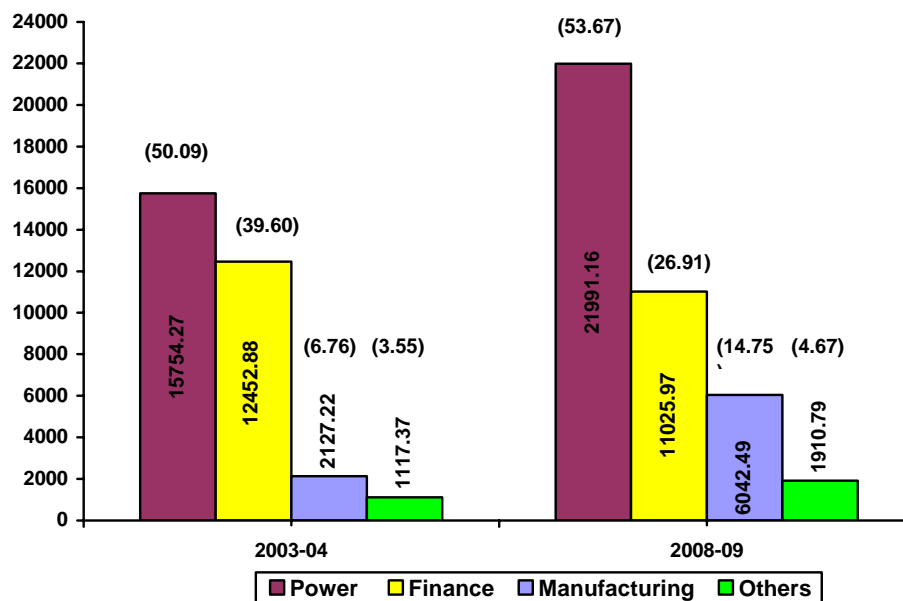
Type of PSUs	Government Companies			Statutory Corporations			Grand Total
	Capital	Long Term Loans	Total	Capital	Long Term Loans	Total	
Working PSUs	11,133.86	27,404.74	38,538.60	415.64	1,416.69	1,832.33	40,370.93
Non-working PSUs	194.25	387.25	581.50	-	17.98	17.98	599.48
Total	11,328.11	27,791.99	39,120.10	415.64	1,434.67	1,850.31	40,970.41

A summarised position of government investment in State PSUs is detailed in **Annexure 1**.

1.8 As on 31 March 2009, of the total investment in State PSUs, 98.54 per cent was in working PSUs and the remaining 1.46 per cent in non-working PSUs. This total investment consisted of 28.66 per cent towards capital and 71.34 per cent in long-term loans. The investment has grown by 30.26 per cent from Rs. 31,451.74 crore in 2003-04 to Rs. 40,970.41 crore in 2008-09 as shown in the graph below.



1.9 The investment in various important sectors and percentage thereof at the end of 31 March 2004 and 31 March 2009 are indicated below in the bar chart. The investment in PSUs was concentrated on power and finance sector which ranged between 50.09 to 53.67 per cent (power) and 39.60 to 26.91 per cent (finance) during the six years ending 31 March 2009. In absolute term investment was raised by Rs. 6,236.89 crore in power sector while it was reduced by Rs. 1,426.91 crore in finance sector.



(Figures in brackets show the percentage of total investment)

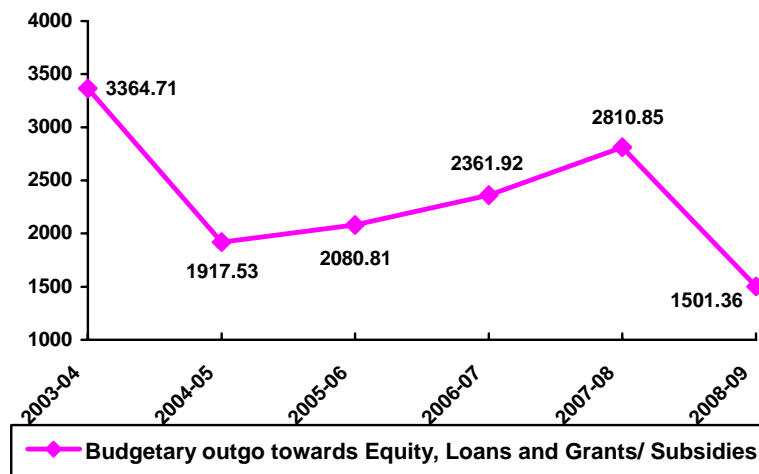
Budgetary Outgo, Grants/subsidies, guarantees and loans

1.10 The details regarding budgetary outgo towards equity, loans, grants/subsidies, guarantees issued, loans written off, loans converted into equity and interest waived in respect of State PSUs are given in **Annexure 3**. The summarised details are given below for three years ended 2008-09.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of PSUs	Amount	No. of PSUs	Amount	No. of PSUs	Amount
1.	Equity Capital outgo from budget	16	725.96	14	1,552.37	15	593.69
2.	Loans given from budget	29	1,255.11	28	909.52	26	500.93
3.	Grants/Subsidy received [®]	27	380.85	20	348.96	24	406.74
4.	Total Outgo (1+2+3)	46 [#]	2,361.92	42 [#]	2,810.85	45 [#]	1,501.36
5.	Loans converted into equity	2	150.70	-	-	2	311.85
6.	Guarantees issued	10	1,522.77	9	2,623.42	10	1,670.19
7.	Guarantee Commitment	27	18,563.84	27	18,651.78	24	23,190.09

1.11 The details regarding budgetary outgo towards equity, loans and grants/ subsidies for past five years are given in a graph below.



The budgetary outgo towards equity, loans and grants/subsidies has declined from Rs. 3,364.71 crore in 2003-04 to Rs. 1,501.36 crore in 2008-09 due to increase in number of non-working companies and restructuring of PSUs.

[®] Amount represents outgo from State Budget only.

[#] The figure represents number of PSUs which have received outgo from budget under one or more heads i.e. equity, loans, grants/subsidies.

1.12 Except West Bengal Infrastructure Development and Finance Corporation Limited all other PSUs are liable to pay guarantee commission at the rate of one *per cent per annum* to the State Government on the maximum guarantee sanctioned irrespective of the amount availed or outstanding as on 1 April of each year till liquidation of loan. During 2008-09, the State Government had guaranteed loans aggregating Rs. 1,670.19 crore to 10 PSUs. At the end of 2008-09, guarantee commitment by the Government was Rs. 23,190.09 crore against 24 PSUs. During the year five PSUs paid guarantee commission of Rs. 13.48 crore to the State Government while Rs. 99 crore is outstanding from 17 PSUs.

Reconciliation with Finance Accounts

1.13 The figures in respect of equity, loans and guarantees outstanding as per records of State PSUs should agree with that of the figures appearing in the Finance Accounts of the State. In case the figures do not agree, the concerned PSUs and the Finance Department should carry out reconciliation of differences. The position in this regard as at 31 March 2009 is stated below.

(Rs. in crore)

Outstanding in respect of	Amount as per Finance Accounts	Amount as per records of PSUs	Difference
Equity	8,637.69	9,670.64	1,032.95
Loans	11,232.07	9,137.35	2,094.72
Guarantees	11,000.89	23,190.09	12,189.20

1.14 Audit observed that the differences occurred in respect of 69 PSUs and some of the differences were pending reconciliation since many years. In order to reconcile discrepancy in figures of investment on equity and loans made by State Government in Government companies /corporations as indicated in Audit Report (Commercial) and the Finance Accounts, the matter was taken up with Principal Secretary of Finance department in November 2008 but no response was received either from the concerned administrative departments or from the managements of the concerned PSUs. The Government and the PSUs should take concrete steps to reconcile the differences in a time-bound manner.

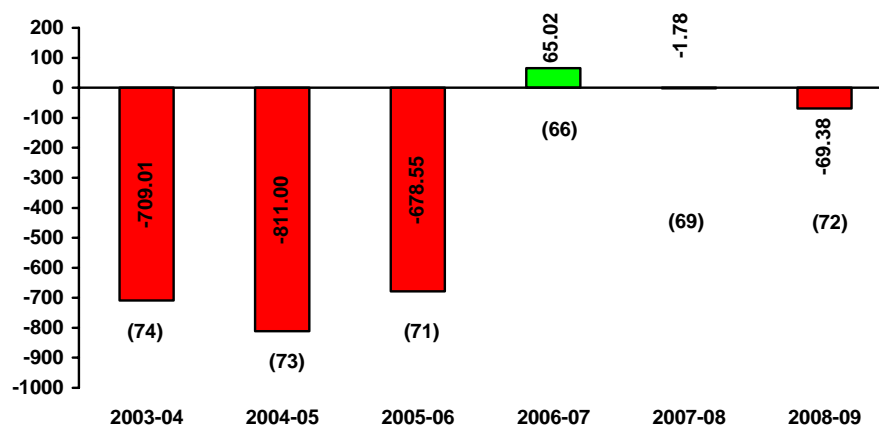
Performance of PSUs

1.15 The financial results of PSUs, financial position and working results of working Statutory corporations are detailed in **Annexure 2, 5 and 6** respectively. A ratio of PSU turnover to State GDP shows the extent of PSU activities in the State economy. Table below provides the details of working PSU turnover and State GDP for the period 2003-04 to 2008-09.

(Rs. in crore)						
Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Turnover [∞]	8,895.90	9,932.70	10,623.04	12,530.81	6,630.89	17,295.92
State GDP	1,72,540	1,90,245	2,08,145	2,40,775	2,74,897	3,09,261
Percentage of Turnover to State GDP	5.16	5.22	5.10	5.20	2.41	5.59

It would be seen from above that in terms of turnover PSUs had played a significant role in State GDP. The percentage of turnover to State GDP hovered around five per cent during the last six years except in 2007-08. In 2007-08 the turnover shrunk due to delayed finalisation of accounts by two re-structured PSUs in power sector while in 2008-09 surge in turnover was attributed to inclusion of turnover of two 619-B companies.

1.16 Profit (losses) earned (incurred) by State working PSUs during 2003-04 to 2008-09 as per their latest finalised accounts are given below in a bar chart.



Overall Profit ■ earned / Loss ■ incurred during year by working PSUs

(Figures in brackets show the number of working PSUs in respective years)

During the year 2008-09, out of 72 working PSUs, 34 PSUs earned profit of Rs. 538.73 crore and 32 PSUs incurred loss of Rs. 608.11 crore. Three working PSUs[∞] prepared their accounts on a 'no profit no loss' basis, while three working PSUs^{*} have not yet submitted their first accounts. The major contributors to profit were Haldia Petrochemicals Limited (Rs. 134.64 crore), West Bengal Power Development Corporation Limited (Rs. 104.23 crore), West Bengal State Electricity Distribution Company Limited (Rs. 100.26 crore) and West Bengal State Electricity Transmission Company Limited (Rs. 81.32 crore). The heavy losses were incurred by The Calcutta Tramways Company (1978) Limited (Rs. 195.25 crore), Calcutta State Transport Corporation (Rs. 47 crore), The Durgapur Projects Limited (Rs. 130.48 Crore) and Kalyani Spinning Mills (Rs. 44.34 crore).

[∞] Turnover of working PSUs as per the latest finalised accounts as of 30 September.

[∞] Sr. nos. A-20, 21 & 22 of Annexure-2.

^{*} Sr. nos. A-32, 34 & 51 of Annexure-2.

1.17 The losses of PSUs are mainly attributable to deficiencies in financial management, planning, implementation of project, inefficient operation and monitoring. A review of latest Audit Reports of CAG shows that the State PSUs incurred losses to the tune of Rs. 3201.27 crore and infructuous investment of Rs. 128.45 crore which were controllable with better management. Year wise details from Audit Reports are stated below.

(Rs. in crore)

Particulars	2006-07	2007-08	2008-09	Total
Net Profit (loss)	65.02	(1.78)	(69.38)	(6.14)
Controllable losses as per CAG's Audit Report	521.78	1358.14	1321.35	3201.27
Infructuous Investment	41.87	2.23	84.35	128.45

1.18 The above losses pointed out by Audit Reports of CAG are based on test check of records of PSUs. The actual controllable losses would be much more. The above table shows that with better management, the losses can be eliminated or the profits can be enhanced substantially. The PSUs can discharge their role efficiently only if they are financially self-reliant. The above situation points towards a need for professionalism and accountability in the functioning of PSUs.

1.19 Some other key parameters pertaining to State PSUs are given below.

(Rs. in crore)

Particulars	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Return on Capital Employed (Per cent)	7.11	6.73	6.14	7.67	6.93	6.83
Debt	27,102.06	28,654.91	28,171.06	28,667.74	25,701.20	29,226.67
Turnover ^Y	8,895.90	9,932.70	10,623.04	12,530.81	6,630.89	17,295.92
Debt/ Turnover Ratio	3.05:1	2.88:1	2.65:1	2.29:1	3.87:1	1.69:1
Interest Payments	2,288.65	2,640.15	1,933.47	1,677.11	2,163.73	2,606.69 ^Z
Accumulated losses (-)	(-)9,256.95	(-)10,260.12	(-)10,671.41	(-)10,232.99	(-)4,617.69	(-)5,248.69

(Above figures pertain to all PSUs except for turnover which is for working PSUs).

1.20 The above parameters indicate no significant improvement in financial position of the PSUs. The return on capital employed actually decreased from 7.11 *per cent* in 2003-04 to 6.83 *per cent* in 2008-09. The debt turnover ratio had improved from 3.05:1 in 2003-04 to 1.69:1 in 2008-09 mainly due to restructuring in power sector companies and inclusion of one major 619-B company namely Haldia Petrochemicals Limited. Consequently, accumulated loss decreased from Rs. 9,256.95 crore in 2003-04 to Rs. 5,248.69 crore in 2008-09.

1.21 As per the recommendations of the Tenth Finance Commission the State must adopt a modest rate of return on the investment made in commercial, promotional and commercial & promotional public enterprises at the rate of six *per cent*, one *per cent* and four *per cent* respectively, as dividend on equity. Though 32 PSUs earned an aggregate profit of

^Y Turnover of working PSUs as per the latest finalised accounts as of 30 September of respective years.

^Z As per latest finalised accounts.

Rs. 538.73 crore as per their latest finalised accounts only four PSUs (West Bengal Forest Development Corporation Limited, Saraswati Press Limited, New Town Electric Supply Company Limited and Webel Technology Limited) declared dividend of Rs. 1.79 crore.

Performance of major PSUs

1.22 The investment in working PSUs and their turnover together aggregated to Rs. 57,666.85 crore during 2008-09. Out of 72 working PSUs, the following five PSUs accounted for individual investment *plus* turnover of more than five *per cent* of aggregate investment *plus* turnover. These five PSUs together accounted for 81.65 *per cent* of aggregate investment *plus* turnover.

(Rs. in crore)

PSU Name	Investment	Turnover	Total (2) + (3)	Percentage to Aggregate Investment plus Turnover
(1)	(2)	(3)	(4)	(5)
West Bengal Power Development Corporation Limited	9,335.42	3,118.84	12,454.26	21.60
West Bengal State Electricity Distribution Company Limited	6,995.24	5,426.44	12,421.68	21.54
West Bengal Infrastructure Development & Finance Corporation Limited	9,328.02	950.09	10,278.11	17.82
Haldia Petrochemicals Ltd.	4,038.23	4,193.39	8,231.62	14.27
West Bengal State Electricity Transmission Company Limited	3,263.82	436.71	3,700.53	6.42
Total	32,960.73	14,125.47	47,086.20	81.65

Some of the major audit findings of past five years for above PSUs are stated in the succeeding paragraphs.

West Bengal State Electricity Distribution Company Limited

1.23 The Company had arrear of accounts for one year as of September 2009. After restructuring of erstwhile West Bengal State Electricity Board, the Company earned profit of Rs. 100.26 crore in its first year of operation and registered turnover of Rs. 5,426.44 crore. The percentage of return on capital employed was 6.53 *per cent*.

1.24 Deficiency in planning

- The Company awarded contract for supply/erection of hydro mechanical equipment for a pumped storage project without acquiring the required land. Consequently, the project was delayed and the contractor was allowed compensation of Rs. 14.54 crore for suspension of work and extension of project duration.

(Paragraph 4.4 of Audit Report 2008-09)

1.25 Delay in implementation and non achievement of objective

- The implementation of Accelerated Power Development and Reforms Programme had not received the required attention as there were delays in taking up the execution of works, slippages in completion of works and deficient monitoring over the on going works. Consequently, the objective of reducing aggregated technical and commercial losses in distribution of power did not fructify and the company was deprived of the anticipated savings in energy of Rs. 44.86 crore.

(Paragraph 3.1 of Audit Report 2005-06)

1.26 Deficiency in monitoring

- Despite availability of power and infrastructure the company delayed releasing additional power to two consumers and imposed unnecessary restriction on drawal of power during peak hours resulting in loss of revenue of Rs. 2.28 crore.

(Paragraph 3.2 of Audit Report 2007-08)

- The Company could not realise interest and return aggregating Rs. 818.01 crore through tariff mechanism due to the decision of the State Government to reduce the rate of interest on loans and subsequent reversal of this decision. The Company also failed to approach the Government to issue direction to the Commission for review of the tariff orders which led to such loss.

(Paragraph 4.12 of Audit Report 2004-05)

West Bengal Power Development Corporation Limited

1.27 The profit of the company steadily decreased from Rs. 255.18 crore in 2006-07 to Rs. 104.23 crore in 2008 -09. On the other hand turnover had rose from Rs. 2608.32 crore in 2006-07 to Rs. 3,118.84 crore in 2008-09. Consequently, return on capital employed declined from 4.71 *per cent* in 2006-07 to 2.68 *per cent* in 2008-09.

1.28 Deficiency in planning

- Bandel and Kolaghat thermal power stations of the company sustained losses aggregating Rs. 35.66 crore due to ill planned procurement of coal at higher cost and poor linkage materialisation.

(Paragraphs 2.1.33 of Audit Report 2005-06 and 2.1.19 of Audit Report 2007-08)

1.29 Deficiency in implementation

- Inordinate delay in completion of dry ash collection system and renovation of de-mineralisation plant at Kolaghat thermal power station led to additional expenditure of Rs. 10 crore. Further, non-

replacement of economiser tube of Unit-4 of the same power station led to loss of generation of Rs. 11 crore during 2001-06.

(Paragraphs 2.1.26 to 2.1.28 of Audit Report 2005-06)

1.30 Deficiency in monitoring

- The Company failed to recover Rs. 16.16 crore towards fixed charges due to loss of generation of power arising from delay in replacement of oil in generator transformer despite repeated observance of fault gases dissolved in the oil.

(Paragraph 4.2 of Audit Report 2008-09)

1.31 Deficiency in financial management

- The Company sustained loss of Rs. 1.09 crore as it failed to liquidate interest on loan as per contractual rate.

(Paragraph 4.15 of Audit Report 2006-07)

West Bengal Infrastructure Development Finance Corporation Limited

1.32 The Company had arrear of accounts of one year as on September 2009. The profit of the Company reduced from Rs. 170.15 crore in 2005-06 to Rs. 8.71 crore in 2006-07 and further to Rs. 3.94 crore in 2007-08. Similarly, the turnover declined from Rs. 1255.96 crore in 2005-06 to Rs. 921.77 crore in 2006-07 and increased to Rs. 950.09 crore in 2007-08. The return on capital employed declined from 10.03 *per cent* in 2005-06 to 8.84 *per cent* in 2006-07 and marginally increased to 9.27 *per cent* in 2007-08.

1.33 Deficiencies in financial management

- Abnormal delays in conversion of amount lying in Deposit Account into State Government loans and sanction of loans below cost of borrowings led to loss of Rs. 248.74 crore.

(Paragraph 2.2.16 of Audit Report 2007-08)

- The Company failed to analyse the market rates before fixing the interest rates on bond raised led to additional burden of Rs. 368.33 crore.

(Paragraph 2.2.12 of Audit Report 2007-08)

1.34 Deficiency in monitoring

- Even after funding of Rs. 4,904.27 crore for infrastructure project, no monitoring mechanism existed to ensure end-use of funds disbursed.

(Paragraph 2.2.24 of Audit Report 2007-08)

West Bengal State Electricity Transmission Company Limited

1.35 The Company had arrear of accounts of one year as of September 2009. After formation (February 2007) the company earned net profit of Rs. 81.32 crore in 2007-08 and registered a turnover of Rs. 436.71 crore. The return on capital employed of the company was 7.90 *per cent* for 2007-08.

1.36 Deficiency in planning

- The Company inordinately delayed in construction of 220/132 KV sub-station at Bishnupur which led to transmission of power at lower voltage in the area from distances of 52 km and 88 km resulting in excess transmission loss of 88.51 MU power valued at Rs 28.30 crore.

(Paragraph 3.1 of Audit Report 2007-08)

Haldia Petrochemicals Limited

1.37 The Company had arrears of accounts for six years as of September 2009. The arrears arose due to legal tussle between private promoter and Government Company for which Company Law Board (CLB) passed an order that Board of Directors of the HPL cannot adopt the annual accounts as the same being considered contentious. Though the West Bengal Industrial Development Corporation Limited, being the principal stakeholder, moved the higher courts but could not get vacated the stay order passed by CLB.

As per latest finalised accounts of 2003-04 the company had earned profit of Rs. 134.64 crore on a turnover of Rs. 4,193.39 crore. The return on capital employed of the company was 11.60 *per cent* in 2003-04.

Since the Government owned companies had invested Rs. 1,096 crore in the company and it had provisionally recorded a turnover of Rs. 21,728 crore in last three years up to 2008-09, the State Government should pursue the legal case vigorously so that these huge transactions may not remain out of legislative scrutiny.

Conclusion

1.38 The above details indicate that the State PSUs are not functioning efficiently and there is tremendous scope for improvement in their overall performance. They need to imbibe greater degree of professionalism to ensure delivery of their products and services efficiently and profitably. The State, Government should introduce a performance based system of accountability for PSUs.

Arrears in finalisation of accounts

1.39 The accounts of the companies for every financial year are required to be finalised within six months from the end of the relevant financial year

under Sections 166, 210, 230, 619 and 619-B of the Companies Act, 1956. Similarly, in case of Statutory corporations, their accounts are finalised, audited and presented to the Legislature as per the provisions of their respective Acts. The table below provides the details of progress made by working PSUs in finalisation of accounts by September 2009.

Sl. No.	Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
1.	Number of Working PSUs	73	71	66	69	72
2.	Number of accounts finalised during the year	89	82	79	77	67
3.	Number of accounts in arrears	73	85	62	53	66
4.	Average arrears per PSU (3/1)	1.00	1.20	0.94	0.77	0.92
5.	Number of Working PSUs with arrears in accounts	45	40	36	33	43
6.	Extent of arrears	1 to 6 years	1 to 12 years	1 to 6 years	1 to 4 years	1 to 5 Years

1.40 It would be evident from the above table that the working PSUs had failed to finalise at least one account per year during last three years leading to accumulation of arrears of 67 accounts upto 2008-09. Out of 72 working PSUs, only 29 PSUs^Y had finalised their accounts for the year 2008-09 up to September 2009, as can be seen from **Annexure 2**. The main reasons as stated by the companies for delay in finalisation of accounts is lack of trained staff. The matter of arrear accounts and their non-submission in State Legislature also attracted attention of Committee on Papers of the West Bengal Legislative Assembly. They expressed concern and recommended (July 2009) time bound action plan to pull up the arrears.

1.41 In addition to above, there were also arrears in finalisation of accounts by non-working PSUs. Out of 23 non-working PSUs, six[∞] had gone into voluntary winding up process. Of the remaining 17 non-working PSUs, 15 PSUs had arrears of accounts for one to seven years while two PSUs had finalised their accounts for the year 2008-09.

1.42 The State Government had invested Rs. 804.59 crore (Equity: Rs. 128.11 crore, loans: Rs. 225.72 crore and grants/ subsidy: Rs 450.76 crore) in 25 PSUs during the years for which accounts have not been finalised as detailed in **Annexure 4**. In the absence of accounts and their subsequent audit, it can not be ensured whether the investments and expenditure incurred have been properly accounted for and the purpose for which the amount was invested has been achieved or not and thus Government's investment in such PSUs remain outside the scrutiny of the State Legislature. Further, delay in finalisation of accounts may also result in risk of fraud and leakage of public money apart from violation of the provisions of the Companies Act, 1956.

1.43 The administrative departments have the responsibility to oversee the activities of these entities and to ensure that the accounts are finalised and

^Y Refer Serial Nos. A-2, 3, 8, 17, 18, 20, 23, 25, 26, 27, 28, 29, 30, 31, 36, 39, 40, 42, 44, 47, 48, 50, 52, 54, 58, 60, 62, 63 & B-2 of **Annexure 2**.

[∞] Refer Serial Nos. C-11, 12, 13, 14, 21 & 22 of **Annexure 2**.

adopted by these PSUs within the prescribed period. Though the concerned administrative departments and officials of the Government were informed every quarter by the Audit, of the arrears in finalisation of accounts, no remedial measures were taken. As a result of this the net worth of these PSUs could not be assessed in audit. The matter of arrears in accounts was also taken up (August 2009) with the Chief Secretary/ Finance Secretary to expedite the backlog of arrears in accounts in a time bound manner.

1.44 In view of above state of arrears, it is recommended that:

- **The Government may set up a cell to oversee the clearance of arrears and set the targets for individual companies which would be monitored by the cell.**
- **The Government may consider outsourcing the work relating to preparation of accounts wherever the staff is inadequate or lacks expertise.**

Winding up of non-working PSUs

1.45 There were 23 non-working PSUs (22 companies and one Statutory corporations) as on 31 March 2009. Of these, six PSUs have commenced voluntary liquidation process. The numbers of non-working companies at the end of each year during past five years are given below.

Particulars	2004-05	2005-06	2006-07	2007-08	2008-09
No. of non-working companies	13	14	19	20	22
No. of non-working corporations	-	-	1	1	1
Total	13	14	20	21	23

The non-working PSUs are required to be closed down as their existence is not going to serve any purpose. During 2008-09, two non-working PSUs incurred an expenditure of Rs. 2.64 crore towards salary and establishment expenditure and Rs 0.68 crore towards other expenditure. This was financed by the State Government.

1.46 The stages of closure in respect of non-working PSUs are given below.

Sl. No.	Particulars	Companies	Statutory Corporations	Total
1.	Total No. of non-working PSUs	22	1	23
2.	Of (1) above, the No. under			
(a)	liquidation by Court (liquidator appointed)	-	-	-
(b)	Voluntary winding up (liquidator appointed)	6	-	6
(c)	Closure, i.e. closing orders/ instructions issued but liquidation process not yet started.	12	1	13

1.47 The process of voluntary winding up under the Companies Act is much faster and needs to be adopted / pursued vigorously. The Government may

make a decision regarding winding up of four non-working PSUs where no decision about their continuation or otherwise has been taken after they became non-working. The Government may consider setting up a cell to expedite closing down its non-working companies.

Accounts comments and Internal Audit

1.48 Forty-eight working companies forwarded their audited 60 accounts to PAG during the period from October 2008 to September 2009. Of these, 49 accounts of 39 companies were selected for supplementary audit. The audit reports of statutory auditors appointed by CAG and the supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	10	695.50	11	111.05	12	123.71
2.	Increase in loss	17	197.31	22	61.93	18	100.79
3.	Non-disclosure of material facts	9	134.93	13	1231.83	9	196.54
4.	Errors of classification	7	133.68	11	2029.64	6	64.55

During the period 2006-07 to 2008-09 out of 79, 77 and 60 accounts finalised, 66, 47 and 49 accounts were selected for supplementary audit. Significant high money value of comments in 2006-07 having impact on profit and loss accounts had come down in subsequent years due to persistent follow up for rectification of accounting policies by CAG and statutory auditors and improved compliances to generally accepted accounting policies by the Management. However, there was further scope for betterment in the areas of disclosure and errors of classification.

1.49 During the year 2008-09 statutory auditors had given unqualified certificates for 33 accounts and qualified certificates for 27 accounts. Further, there was scope for improvement in compliance of companies with the accounting standards as there were 27 instances of non-compliance in seven accounts during the year.

1.50 Some of the important comments in respect of accounts of companies are stated below.

The Durgapur Projects Limited (2008-09)

- Loss for the year was under stated by Rs. 79.51 crore due to non-provision for bad and time barred debt (Rs. 78.65 crore) and wrong accounting of deposit received from consumer as 'miscellaneous income' (Rs. 85.56 lakh).

West Bengal State Electricity Distribution Company Limited (2007-08)

- Profit for the year was overstated by Rs. 80.51 crore due to non-provision towards liability on excess revenue collected in 2006-07 refundable to the consumers, doubtful receivables, assets /materials lost on theft /burglary and non-accounting of loss on redemption of bond.

West Bengal State Electricity Transmission Company Limited (2007-08)

- Profit for the year was overstated by Rs. 21.66 crore on account of non-provision for shortfall arising on physical verification of inventories and non-existent current assets, non-writing off of entire preliminary expenses and wrong accounting of deposit received from client as other income.

West Bengal Essential Commodities Supply Corporation Limited (2006-07)

- Impact on loss for deduction from export bills and claim against the Company by the foreign buyers, aggregating Rs. 84.39 crore, due to non-receipt of materials or service was not disclosed.

West Bengal Small Industries Development Corporation Limited (2008-09)

- Profit for the year was overstated by Rs. 9.89 crore due to non-provision for permanent diminution in value of investment.

Gluconate Health Limited (2008-09)

- Loss was understated due to non-writing off 'miscellaneous expenditure' of Rs. 6.41 crore arriving from merger of two companies to form Gluconate Health Limited.

West Bengal Electronic Industry Development Corporation Limited (2007-08)

- Net overstatement of profit for the year was Rs. 2.74 crore due to accounting of sale proceeds from disposal of assets of five units as income instead of crediting the proceeds to State Government.

West Bengal Forest Development Corporation Limited (2007-08)

- Profit for the year was overstated by Rs. 2.41 crore due to non-provision for liabilities, doubtful debts /advance and non-adjustment of negative balance of opening stock.

Durgapur Chemicals Limited (2007-08)

- Loss for the year was understated by Rs 2.41 crore due to non-amortisation of proportionate cost (including development cost) of leasehold land, short provision for doubtful debts / advances and non-accounting of liability for goods/service received.

Greater Calcutta Gas Supply Corporation Limited (2007-08)

- Loss for the year was understated by Rs. 2.09 crore due to short provision of interest payable on salary arrear and bonus and non-writing off of expenditure capitalised on an unsuccessful project.

1.51 Similarly, eight working statutory corporations forwarded their 10 accounts to PAG during the period from October 2008 to September 2009. Of these, eight accounts of six statutory corporations pertained to sole audit by CAG which was completed. Of the remaining two accounts, both were selected for supplementary audit. The audit reports of statutory auditors and the sole/ supplementary audit of CAG indicate that the quality of maintenance of accounts needs to be improved substantially. The details of aggregate money value of comments of statutory auditors and CAG are given below.

(Amount Rs. in crore)

Sl. No.	Particulars	2006-07		2007-08		2008-09	
		No. of accounts	Amount	No. of accounts	Amount	No. of accounts	Amount
1.	Decrease in profit	1	1.50	2	26.56	4	4.83
2.	Increase in loss	3	3070.37	5	148.87	5	33.87
3.	Non-disclosure of material facts	3	246.96	4	9.57	4	2.88
4.	Errors of classification	5	213.58	-	-	6	86.23

Due to unbundling of West Bengal State Electricity Board from 2007-08 money value of comments has decreased in subsequent years.

1.52 During the year, all 10 accounts received qualified certificates. The compliance of accounting standards by the Statutory corporations remained poor as there were six instances of non-compliance in these accounts during the year.

1.53 Some of the important comments in respect of accounts of statutory corporations are stated below.

West Bengal Industrial Infrastructure Development Corporation (2006-07)

- Profit for the year was overstated by Rs. 4.39 crore due to non-accounting of excess of expenditure incurred on land cost over sale proceeds of the land (Rs. 3.63 crore) and non-provision of bad debts (Rs. 0.76 crore).

South Bengal State Transport Corporation (2007-08)

- Loss for the year was understated by Rs. 1.57 crore on account of short provision of liability for gratuity payable (Rs. 1.17 crore) and non-charging off of capital expenditure incurred on assets no longer exist (Rs. 0.40 crore).

West Bengal State Ware Housing Corporation (2007-08)

- Loss for the year was understated by Rs. 60 lakh due to non provision of claim lodged by Food Corporation of India in respect of misappropriation of stock during December 1995.

West Bengal Backward Classes Development and Finance Corporation (2007-08)

- Loss for the year was understated by Rs. 31.69 lakh due to accounting of income without certainty of realisation.
- Dishonoured cheque valuing Rs. 1.56 crore was not disclosed in the accounts.

West Bengal Scheduled Castes & Scheduled Tribes Development and Finance Corporation (2006-07)

- Profit for the year was overstated by Rs. 24.93 lakh due to short provision of liability for interest payable (Rs. 16.49 lakh) and non-provision for bad and doubtful debts (Rs. 8.44 lakh).

1.54 The Statutory Auditors (Chartered Accountants) are required to furnish a detailed report upon various aspects including internal control/ internal audit systems in the companies audited in accordance with the directions issued by the CAG to them under Section 619(3)(a) of the Companies Act, 1956 and to identify areas which needed improvement. An illustrative resume of major comments made by the Statutory Auditors on possible improvement in the internal audit/ internal control system in respect of 42 companies[‡] for the year 2007-08 and 16 companies[‡] for the year 2008-09 are given below.

Sl. No	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to Sl. No. of the companies as per Annexure 2
1	Non-fixation of minimum/maximum limits of store and spares	13	A-2, A-5, A-10, A-26, A-27, A-30, A-35, A-36, A-40, A-42, A-44, A-47, A-60
2	Absence of internal audit system commensurate with the nature and size of business of the company	12	A-9, A-10, A-11, A-13, A-14, A-20, A-25, A-27, A-35, A-46, A-47, A-61
3	Non maintenance of cost record	18	A-2, A-5, A-6, A-10, A-14, A-15, A-16, A-18, A-19, A-24, A-27, A-30, A-37, A-44, A-52, A-57, A-59, A-61
4	Non maintenance of proper records showing full particulars including quantitative details, situations, identity number, date of acquisitions, depreciated value of fixed assets and their locations	22	A-4, A-8, A-9, A-10, A-14, A-19, A-24, A-26, A-27, A-30, A-37, A-42, A-44, A-45, A-46, A-47, A-53, A-59, C-2, C-4, C-7, C-20
5	Lack of internal control over sale of power	1	A-45

[‡]Sr. No. A-2, 5, 7, 8, 10, 11, 12, 13, 15, 16, 18, 19, 20, 22, 25, 26, 28, 29, 30, 36, 37, 39, 40, 42, 44, 45, 46, 47, 48, 49, 52, 53, 54, 55, 57, 59, 60, 61 & 62, C-4, 16, & 20 in Annexure 2.

[‡] Sr. No. A-2, 18, 20, 25, 27, 30, 31, 36, 39, 40, 44, 47, 50, 54, 62 & C-10 in Annexure 2.

Sl. No	Nature of comments made by Statutory Auditors	Number of companies where recommendations were made	Reference to Sl. No. of the companies as per Annexure 2
6	Absence of security policy for software / hardware and backup of past records	2	A-2, A-40
7	Absence of effective system of monitoring of advances/ outstanding dues	22	A-5, A-7, A-8, A-9, A-10, A-12, A-14, A-16, A-18, A-19, A-26, A-27, A-28, A-35, A-37, A-40, A-45, A-52, A-54, A-59, A-61, A-62
8	Non identification of surplus manpower/ non-fixation of norms of requirement/ deployment of manpower	10	A-10, A-27, A-39, A-40, A-44, A-47, A-52, A-53, A-57, A-60,

Status of placement of Separate Audit Reports

1.55 The following table shows the status of placement of various Separate Audit Reports (SARs) issued by the CAG on the accounts of Statutory corporations in the Legislature by the Government.

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
1	West Bengal State Warehousing Corporation	1997-1998	1998-99 1999-2000 2000-01 2001-02 2002-03 2003-04 2004-05 2005-06 2006-07 2007-08	29.06.2001 15.11.2001 12.04.2002 01.01.2003 04.10.2004 28.06.2005 29.08.2006 05.09.2007 22.08.2008 25.06.2009	Not stated by the Government
2	West Bengal Scheduled Castes and Scheduled Tribes Development and Finance Corporation	2005-2006	2006-07	05.08.2009	Not stated by the Government
3	West Bengal Backward Classes Development and Finance Corporation	2006-2007	2007-08	03.06.2009	Not stated by the Government
4	South Bengal State Transport Corporation	2006-2007	2007-08	18.09.2009	Not stated by the Government
5	West Bengal Minorities Development and Finance Corporation	2006-2007	2007-08	Audit in progress	
6	Calcutta State Transport Corporation	2006-2007	2007-08	06.02.2009	Not stated by the Government

Sl. No.	Name of Statutory Corporation	Year up to which SARs placed in Legislature	Years for which SARs not placed in Legislature		
			Year of SAR	Date of issue to the Government	Reasons for delay in placement in Legislature
7	North Bengal State Transport Corporation	2004-2005	2005-06	07.08.2009	Non-availability of adequate print copy
8	West Bengal Financial Corporation	2007-2008	2008-09	Audit in progress	
9	West Bengal Industrial Infrastructure Development Corporation	2005-2006	2006-07 2007-08	02.07.2008 Audit in progress	Not stated by the Government
10	West Bengal Electricity Regulatory Commission	2007-2008	2008-09	Audit in progress	

It would be observed from above that 12 SARs were not placed for periods ranging from six months to eight years (10 SARs relating to West Bengal State Warehousing Corporation, one SAR relating to Calcutta State Transport Corporation and one SAR relating to West Bengal Backward Classes Development and Finance Corporation). The matter was taken up with the highest authority of the Government by the CAG in January 2009 but the situation needs to be improved further.

Delay in placement of SARs weakens the legislative control over Statutory corporations and dilutes the latter's financial accountability. The Government should ensure prompt placement of SARs in the Legislature.

Disinvestment, Privatisation and Restructuring of PSUs

1.56 The State Government undertook (August 2007) second phase Public Sector Restructuring programme with the financial assistance from Department of International Development, Government of United Kingdom. The second phase to be implemented from 2007-08 to 2010-11, will cover PSUs in the power and transport sector as well as 23 PSUs in other sectors. Among them the Government had decided to disinvest majority share in four^f PSUs and retained 10[♦] PSUs after restructuring and business optimization process. Further development in this regard is awaited.

^f W.B. Film Development Corporation Ltd., Kalyani Spinning Mills Ltd., West Dinajpur Spinning Mills Ltd. and W.B. Handicraft Dev. Corpn. Ltd.

[♦] W.B. Mineral Dev. & Trading Corpn. Ltd., W.B. Pharmaceutical & Phytochemical Dev. Corpn. Ltd., The Infusion (India) Ltd., W.B. Dairy & Poultry Dev. Corpn. Ltd., Electro-Medical & Allied Industries Ltd., W.B. Small Industries Dev. Corpn. Ltd., W.B. Tourism Dev. Corpn. Ltd., W.B. State Minor Irrigation Corpn. Ltd., W.B. Agro Industries Corpn. Ltd., W.B. State Warehousing Corporation.

Reforms in Power Sector

1.57 The State has West Bengal Electricity Regulatory Commission (WBERC) formed in 6 January, 1999 under the Section 17 of erstwhile Electricity Regulatory Commission Act, 1998[◊] with the objective of rationalisation of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State and issue of licences. During 2008-09, WBERC issued 17 orders (six on annual revenue requirements and 11 on others).

1.58 Memorandum of Understanding (MoU) was signed in March, 2001 between the Union Ministry of Power and the State Government as a joint commitment for implementation of reforms programme in power sector with identified milestones. The progress achieved so far in respect of important milestones is stated below.

Sl. No.	Commitment as per MOU	Targeted completion schedule	Status (as on 31 March 2009)
Commitments made by the State Government			
1	Reduction in transmission and distribution losses	20 per cent by 2005	Transmission Loss : 4 per cent Distribution Loss : 23.84 per cent
2	100 per cent electrification of all villages	By March 2007	36,204 mouzas (95.50 per cent) were electrified.
3	100 per cent metering of all consumers	December 2002 (Revised)	97 per cent achieved.
4	West Bengal Electricity Regulatory Commission (WBERC)		
	i) Establishment of WBERC		Constituted in January 1999.
	ii) Implementation of tariff orders issued by WBERC during the year		Tariff orders of 2008-09 have been implemented.
Commitments made by the Central Government			
5	Funds under Accelerated Power Development and Reform Programme (APDRP)		Rs.496.74 crore received upto 2008 -09.
6	Waiver of late payment surcharge on dues to CPSUs after securitisation		Late payment surcharge of Rs. 761.97 crore was waived by CPSUs.
7	Payment of reform-based incentives		No payment was received during the year.
General			
8	Monitoring of MOU		Monthly progress reports were submitted to the State Government by WBSEDCL.

Subsidy amount of Rs. 714.63 crore receivable by West Bengal State Electricity Board (WBSEB) was waived by the State Government pursuant to

[◊] Now Section 82(1) of the Electricity Act 2003.

restructuring of WBSEB into West Bengal State Electricity Distribution Company Limited (WBSEDCL) and West Bengal State Electricity Transmission Company Limited.

Though WBSEDCL claimed to achieve target of 100 *per cent* and 97 *per cent* metering of all distribution feeders and consumers respectively, distribution loss recorded in 2008-09 at 23.84 *per cent* was way above the target agreed in the MOU.

Discussion of Audit Reports by COPU

1.59 The status as on 30 September 2009 of reviews and paragraphs that appeared in Audit Reports (Commercial) and discussed by the Committee on Public Undertakings (COPU) is as under.

Period of Audit Report	Number of reviews / paragraphs			
	Appeared in Audit Report		Paras discussed	
	Reviews	Paragraphs	Reviews	Paragraphs
2003-04	3	27	2	27
2004-05	4	21	2	21
2005-06	4	26	-	17
2006-07	4	21	-	-
2007-08	3	20	-	-
Total	18	115	4	65

1.60 The matter relating to clearance of backlog of reviews/ paragraphs was also discussed with Chief Secretary/ Finance Secretary and Chairperson of COPU in August 2009.