Chapter III

Transaction Audit Observations

Important audit findings arising out of test check of transactions made by the State Government companies/ corporations are included in this chapter.

Government Companies

West Bengal State Electricity Distribution Company Limited

3.1 Loss due to poor project implementation

The Company delayed installation of capacitor banks and could not take the envisaged benefit of improved power factor leading to a loss of ₹ 90.62 crore of saleable energy.

Poor power factor[1] (PF) results in higher power loss in the power distribution network with consequent high transformer loss and increased voltage drop at the consumer end. Conversely, higher power factor leads to energy saving resulting in additional generation at no additional cost.

With a view to arrest low PF, the West Bengal State Electricity Distribution Company Limited (Company), identified[2] (July 2007) 83 sub-stations for installation of 11 KV capacitor banks. The selection was based on sub-stations registering a PF of less than 0.9 at high/ maximum load condition as well as availability of sufficient space for installation of related equipment. Accordingly, two Letters of Award (LOAs) were placed (January 2008) on Shreem Capacitors Private Limited (vendor) for supply, delivery, erection, testing and commissioning of capacitor banks at the cost of ₹ 22.07 crore, to be funded out of loan from Rural Electrification Corporation Limited. The work was scheduled to be completed by July 2008 for 62 sub-stations and by October 2008 for 17 sub-stations, with four sub-stations being dropped from the project for lack of space. As against this capacitor banks were installed at 75 sub-stations after a delay of 270 to 568 days, while work on further four sub-stations was dropped on grounds of space constraints. An amount of ₹ 16.20 crore[3] had been paid to the vendor during this period.

It was observed that availability of space for installation of equipments had been examined through site surveys conducted during the preparation of the detailed project report and constraints pointed out to the management for taking remedial measures. However no action was taken by the management for prompt redressal. Subsequently site survey reports prepared by the vendor (May 2009) again indicated non-availability of space at sub-stations. The management indicated that the issue had been taken up with the local offices

[1] Power factor is a ratio of real power and apparent power, where real power is the capacity of the circuit and apparent power is the product of the current and voltage of the circuit.
[2] On the basis of a detailed project report prepared by Mecon Limited.
[3] ₹15.22 crore against supply and ₹0.98 crore for erection.

for taking appropriate action, but lack of timely action resulted in delay in erection of capacitor banks at 55 sub-stations and thereafter in the work of testing and commissioning at 20 sub-stations, since the Company could not depute its staff on time. This led to avoidable overall time over-run ranging from 270 to 568 days in implementation of the project at 75 sub-stations. As this time over-run was primarily caused by delayed action on the part of the Company, it could not claim any liquidated damages from the vendor and also failed to reap the benefits of higher PF, resulting in loss of saleable energy to the extent of 270.50 million units valued[4] at ₹ 90.62 crore on the basis of 30 *per cent* of maximum load over the period of delay and 12 *per cent* enhancement of PF. The Company neither identified nodal officers for project execution nor fixed responsibilities for delay.

In reply the Government/ Management stated (July 2010) that the loss as stated by audit was only a deferred benefit and admitted loss of revenue at ₹ 7.42 crore, being the net present value of incremental benefit arising from installation of capacitor bank over the capital expenditure. They further stated that this would be recovered through sale of additional energy after installation of the capacitor banks.

The management did not address our observation which brought out the actual loss of revenue over the period of delay. Further, the contention that the loss was only a deferred benefit does not address the fact that lax project monitoring resulted in non-achievement of envisaged benefits of higher PF in the form of potential saleable energy of ₹ 90.62 crore.

The Company should strengthen its project management system to avoid controllable delays in future.

3.2 Loss due to lack of monitoring over collection and deposit of electricity duty

Owing to systematic failure in monitoring over collection and deposit of electricity duty, the Company incurred ₹ 24.68 crore as interest due to delay in payment of duty. Further, the Company had to forego ₹ 37 lakh as rebate.

As per the provisions of Bengal Electricity Duty Act 1935 (Act) and rules thereunder, West Bengal State Electricity Board and subsequently its successor West Bengal State Electricity Distribution Company Limited (Company), was liable to collect electricity duty (ED) from consumers and deposit it with the State Government. The Company was also required to file monthly returns disclosing collections and deposits and was entitled to one *per cent* rebate on ED collected and deposited within one month of collection. In case of non deposit of ED within 60 days of collection, the Company was liable to pay penal interest at the rate of two *per cent* per month.

As per the prevailing system, the Divisions and Circle offices of the Company across the state collected ED from consumers along with energy charges and

[4] At the rate of 335 paise per unit being average tariff for consumers.

deposited entire collection in a designated bank account meant for deposits only. The banks transferred collections to bank accounts of the Company's headquarters in Kolkata. The collection and remittance was reflected in quarterly trial balances submitted by field offices. The Company subsequently remits funds to the field offices to be withdrawn through separate accounts. Upon receipt of these remittances, the field offices deposit the ED with respective treasuries.

Audit scrutiny revealed that:

- ➢ The Company frequently revised billing records to rectify erroneous entries leading to mismatch and disparity between amount initially shown as ED collectable and amount finally determined as payable.

- ➢ The Company's cumbersome procedure of transfer of funds from its field offices, hindered prompt deposit of ED by various field offices. Efforts, if any, made by the Company for centralised deposit of ED, were not on record.

- ➢ As prescribed under rules, the Company did not file monthly returns. Instead, they filed one consolidated annual return. This meant that the Company could not assess monthly ED deposited vis-à-vis ED payable, and consequently could not take corrective action before the end of the year.

- ➢ Penal interest of ₹ 42.31 crore for the years 1999-2000 and 2000-01 was levied which the Company paid (March 2006) by adjustment with rural electrification subsidy receivable from State Government. However, no corrective action was ensured.

Due to continued system lapses, the Company again incurred ₹ 24.68 crore as avoidable interest, and also lost the opportunity to earn ₹ 0.37 crore as rebate, as detailed below:

Year	**Interest (₹ in Crore)**	**Rebate (₹ in Crore)**	**Remarks**
2003-04 & 2004-05	9.75 4.92	0.16 0.10	Assessed, but not paid till November 2010. The Company's request for adjustment with subsidy was not considered by State Government.
2005-06 2006-07	3.09 6.60	0.04 0.06	
2007-08	0.32	0.01	Assessment not yet done. Interest liability as per applicable rules.
Total	**24.68**	**0.37**	

The Management replied (July 2010) that it had filed an application to the appellate authority regarding inappropriate assessment order for the years 2003-04 to 2006-07 which is still pending. They further stated that to avoid delay in depositing ED the Company started centralised payment from its head office in 2009-10 and would file quarterly return from the year 2010-11. The Government endorsed (July 2010) the view of the Management.

The reply is not convincing since in terms of the provision[5] of The West Bengal Electricity Duty Rules, 1935 Company's appeal is liable for rejection since it neither paid ED nor interest due before filing of the appeal which is mandatory. Further, the Company had not filed (November 2010) annualised returns for 2008-09 and 2009-10 and was unable to introduce system of filing monthly returns from 2010-11. In absence of returns the management remained in dark on the position of ED recovered from consumers and its deposit to government exchequer *vis-a-vis* delay, if any, occurred which is fraught with risk of accrued interest liability.

The Company should strengthen its monitoring mechanism for timely payment of ED and streamline accounting procedures to ensure monthly filing of returns.

3.3 Non-safeguarding of financial interests

Overlooking its financial interest the Company disqualified lowest bidder and also placed orders on emergency basis at higher rates thereby incurring additional cost of ₹ 26.38 crore on purchases of meters.

The objective of the laid-down purchase policy of the West Bengal State Electricity Distribution Company Limited (Company) is procurement of quality materials/ equipment at competitive prices. Decisions taken for finalisation of tenders should, therefore, secure the financial interest of the Company while ensuring required quality specifications. The purchase policies also stipulated that if the lowest bidder is not capable of supplying full required quantity, supply of materials / equipment at L_1 price would be offered to L_2, L_3 and other bidders in the descending order.

On the basis of a requisition by different field offices, West Bengal State Electricity Distribution Company Limited (Company) invited (July 2009) tenders for procurement of 22 lakh single phase two wire whole current energy meters. Amongst 15 participants who had applied for the tender, ECIL[6], a Government of India undertaking, made an offer to supply 10 lakh meters, but submitted earnest money deposit (EMD) of ₹ 2.50 crore, which fell short of actual requirement by ₹ 12.50 lakh. The Company rejected the bid of ECIL, due to insufficiency of EMD, even though ECIL offered (August 2009) to deposit the residual amount or reduce its offered quantity proportionately. Audit scrutiny revealed that the landed price offered by ECIL was the lowest at ₹ 840. Incidentally it may be mentioned that in July 2008 and February 2009 the Company had placed order for 6.50 lakh[7] meters from ECIL at L_1 price. Had the Management allowed ECIL to participate in the bid, it would have discovered lower price for meters, which would have applied to all supplies for entire quantity of meters as per Company's purchase policy. Management, by rejecting ECIL's bid, denied itself the opportunity of availing advantage of competitive price and placed orders (February 2010) on six bidders for 24.04 lakh meters at the next higher unit price of ₹ 940 per

[5] Rule 10 B(1).

[6] Electronics Corporation of India Limited.

[7] 2.50 lakh meters in July 2008 @ ₹ 720/ meter and 4 lakh meters in February 2009 @ ₹ 739.71/ meter.

meter. This translated into an additional procurement cost of ₹ 24.04 crore[8], when compared to the rate offered by ECIL.

Further, midway through the tender finalisation process, Management placed (December 2009) repeat orders on two suppliers for one lakh meters based on rates[9] finalised in a previous tender (February 2009), even though the same parties had subsequently quoted a lower rate in the current tender. Moreover, in the tender finalised in February 2009 these suppliers were not the lowest bidders, but were allowed to supply because the lowest bidder ECIL could not deliver beyond four lakh meters at that point of time. No offers were made to ECIL. The specific advice of the finance wing to take into account downward trends in price before placement of repeat order was also not given due cognizance. This led to an additional cost of ₹ 2.34 crore[10], being the difference between the rates offered by ECIL and the rates at which repeat orders were placed.

In reply, Government/ Management stated (September 2010) that ECIL was disqualified since it did not deposit sufficient EMD, and that ECIL would have been eventually disqualified since it had not completed delivery under the earlier tender. It was also stated that the repeat order was necessitated due to dearth of meters consequent upon short supply of meters by ECIL.

The purchase policy of the Company provides that EMD would be proportionate to the quantity to be delivered by the bidder. Thus, Management could have restricted ECIL's deliverable meters in proportion to the EMD deposited. Further, the Management's argument that ECIL would have been disqualified for delayed delivery is not acceptable since none of the two suppliers on whom orders were placed completed their scheduled delivery under the earlier tender within December 2009. In addition, the contention of the Management that due to dearth of meters it had placed orders at prices discovered in the previous tender is also not acceptable since subsequent tender was already in the process of finalisation.

Thus, by non-safeguarding its financial interest, the Company incurred additional cost of ₹ 26.38 crore on purchase of meters at higher rates.

3.4 Extra expenditure due to non-acceptance of the lowest rate

Non-acceptance of the lowest rate offered by Indian Oil Corporation Limited resulted in extra expenditure of ₹ 5.68 crore in procurement of transformer oil.

Basic objective of the purchase policy of West Bengal State Electricity Distribution Company Limited (Company) is procurement of materials/ equipment of required quality at competitive prices. Towards achievement of this objective, the policy provided for sending NITs[11] to renowned

[8] 24.04 lakh x (₹ 940 - ₹ 840).

[9] Rates quoted between ₹949.50 and ₹ 998.59.

[10] At differential rates of ₹ 209.79 and ₹ 258.88 per meters for 50,000 meters each by two suppliers.

[11] Notice Inviting Tender.

manufacturers to participate in tendering process in addition to wide circulation of NITs in newspapers, so as to make tenders more competitive.

In January 2008, the Company received a *suo-moto* offer from Indian Oil Corporation Limited (IOC) for supply of EHV grade Transformer Oil (TO). Since IOC had not supplied TO earlier to the Company, an inspection was undertaken (April 2008) and TO found to be of acceptable grade. However, before decision on the offer of IOC, the Company invited (April 2008) tenders through all India press for procurement of 1,800 KL of TO. Copy of the NIT was not sent to IOC, though the purchase policy permitted it. Meanwhile price bid of IOC was received (May 2008) wherein the landed price[12] of TO was quoted at ₹ 50,860 per kilolitre (KL) with a validity of 90 days. Subsequently the price bids received against tender invited in April 2008, indicated (June 2008) offer of Apar Industries Limited (AIL) as the lowest landed price at ₹ 65,786.80 per KL subject to price escalation as per IEEMA[13] bulletins. IOC did not participate in the tender, but offered (June 2008) to supply TO at landed price of ₹ 61,057.60 per KL without any escalation for orders placed within July 2008. The Standing Tender Committee (STC) of the Company approved (July 2008) a trial procurement of 90 KL of TO from IOC at ₹ 61,057.60 per KL without any escalation, observing that the price offered by IOC was below the price obtained in its recently concluded tender. Though the STC recommended obtaining final approval from the Board Committee on Contracts, Purchases and Procurement, the approval was not obtained and no order was placed on IOC.

In the subsequent meeting (July 2008) of the STC, procurement of 1,800 KL TO from AIL at ₹ 65,786.80 per KL with price escalation, was recommended. The recommendation was placed before the Board Committee which approved (August 2008) the procurement. It was recorded during this process of approval that IOC had not been considered as it had not participated in the tender, that it had no prior record of supplying to the Company or its predecessor, WBSEB.

Between September and November 2008, AIL delivered 1,797.60 KL valued at ₹ 16.65 crore at rates ranging from ₹ 74,361.60 per KL to ₹ 82,592.40 per KL after adjusting price as per IEEMA escalation clause.

We observed that the Company over-looked IOC's offer (June 2008) of ₹ 61,057.60 per KL which was the lowest price offered, without a condition of subsequent price escalation. This led to an additional procurement cost of ₹ 5.68 crore.

In reply, the Government/ Management stated (July 2010) that (a) the Company did not consider IOC as renowned manufacturer of EHV grade transformer oil since they were new entrant in the field and (b) IOC's lowest rate cannot be compared, extrapolated and equated with a separate tender where IOC was not a bidder.

[12] Landed price is the sum total of the price of the product, its packaging, transportation and applicable taxes.

[13] India Electrical and Electronics Manufacturers' Association.

The reply overlooks the fact that **(a)** the quality of TO manufactured by IOC was certified by BIS and CPRI[14] and original transformer makers like BHEL. In addition, it was also found to be of acceptable grade by the Company's testing division. **(b)** As per the Company's laid down purchase policy the management compares/ extrapolates lowest tendered price with that of last procurement prices and prices obtained by other utilities to arrive at the reasonableness of the tendered price. By disregarding IOC's lower rate, the Company placed orders at higher rates with consequential additional expenditure of ₹ 5.68 crore. Besides, the Company also failed to adhere to the objectives of its own purchase policy of procurement at competitive rates.

To minimise the scope of subjective interpretations the Company should adhere to its purchase policy so as to make the tender more competitive for procurement of materials at lower prices.

3.5 Loss due to under recovery of supervision charges

The Company's failure to recover supervision charges on the cost of material and labour incurred in effecting new connections to the consumer resulted in loss of revenue of ₹ 3.17 crore.

West Bengal Electricity Regulatory Commission (Commission) had allowed (September 2005) distribution licensees to recover supervision charges at 15 *per cent* of the cost of material and labour incurred in effecting new connections to the consumer. Accordingly, West Bengal State Electricity Board (Board) as predecessor to West Bengal State Electricity Distribution Company Limited (Company) directed (May 2006) its units to adhere to the directive. However in March 2007 the Board revised its order and exempted supervision charges on material costs. The reasons are not on record. In January 2008 the Company again reverted back to the Commission's directive.

To determine the quantum of supervision charges the Company prepared estimates based on historical cost data instead of actual cost maintained in priced store ledger. This necessited revision of the estimates after completion of the works to determine actual costs and appropriate supervision charges. The company found it difficult to recover this enhanced cost as consumers often protested subsequent enhancement of cost over the estimates they had already paid.

It was noticed that between November 2007 and July 2009 the Company gave new connections to 1,111 consumers through 14 divisions[15] of the Company but did not realise ₹ 3.17 crore as supervision charges applicable on material cost.

Government/ Management stated (July 2010) that the Company recovered supervision charges at the rate of 15 *per cent* on labour cost in accordance with internal office orders. However, the Company had reverted (January 2008) to the collection of supervision charges on material and labour

[14] BIS – Bureau of Indian Standards, CPRI – Central Power Research Institute.

[15] Arambagh, Kalna, Alipurduar, Tarakeshwar, Berhampore, Bashirhat, Suri, CE (Distn), Coochbehar, Katwa, Burdwan, Bankura, Asansol and Kalyani .

cost in accordance with the Commission's directives. The instant cases pointed out by audit related to quotations which were served prior to the Company's revised directive and the consumers had already deposited the amounts. As such revised quotations were not raised by including supervision charges on material cost.

The reply does not consider the fact that the internal office orders to recover supervision charges on labour cost alone was in contravention of the Commission's directives in this regard. The reasonableness of the Commission's order cannot be challenged, though, any person aggrieved with any decision or order of the Commission may file an appeal[16] to the High Court which had not been done in the instant cases. Since the raising of quotation on the basis of its order was *ultra vires* to Commission's directives the Company should revise its estimates to collect appropriate charges.

Thus, due to non-recovery of appropriate supervision charges, the Company suffered loss of revenue of ₹ 3.17 crore.

The Company should issue clear cut directions to its field offices for adherence to the Commission's directives and prepare estimates based on priced store ledger data to obviate the necessity of its revision subsequently.

3.6 Loss due to inadequate system controls

The Company billed high voltage consumers at rates applicable for low and medium voltage consumers resulting in revenue loss of ₹ 1.53 crore.

The chargeable tariff for different class of consumers depends upon quantum and purpose for which power is required and is intimated by the West Bengal Electricity Regulatory Commission (Commission) through its tariff orders. The tariff Regulations[17] specify a two-part tariff, consisting of a fixed[18] charge depending upon contract demand[19] and energy charge, depending upon actual power drawn. The two-part tariff, when considered in totality, was lower for consumers with contract demand less than 50 KVA and higher for consumers with contract demand more than 50 KVA.

The West Bengal State Electricity Distribution Company Limited (Company) classifies consumers as Low & Medium Voltage (L&MV) having contract demand less than 50 KVA and as High Voltage (HV) having contract demand more than 50 KVA. In view of the above tariff regulations, the Company was required to install appropriate checks and balances in its consumer billing software, so as to automatically convert L&MV consumers persistently drawing beyond the threshold limit of 50 KVA, to HV category, so as to avoid revenue loss.

Test check of consumer billing records in 19 divisions (April 2009 to December 2009) revealed that L&MV tariffs continued to be applied in case

[16] Sec 27(1) of the Electricity Regulatory Commissions Act 1998.
[17] WBERC (Terms & Conditions of Tariff) Regulations, 2007 as amended from time to time.
[18] Defined as "Demand" Charge for HV consumers.
[19] The expected demand for power specified in the agreement with the consumer.

of 99 consumers across eight divisions[20], in spite of these consumers drawing power ranging from 52 KVA to 238 KVA for periods ranging from three to 43 months, thereby attracting higher tariff rates applicable to HV consumers. This led to loss of additional revenue worth ₹ 1.53 crore from April 2007 to December 2009 from these consumers. Non-occurrence of such instances in the remaining 11 divisions was due to the fact that there were no L&MV consumers drawing power above the threshold limit of 50 KVA. In this connection, it was further observed that:

- The tariff orders of the Commission had built-in measures to penalise HV consumers drawing in excess of contract demand by imposing a higher rate for such excess drawal. Such penal measures were not in place in case of L&MV consumers. Due to absence of such penal measures, the L&MV consumers were under no pressure to convert to HV on their own accord, while they continued over-drawal leading to over-loading of the distribution system.

- Unlike the erstwhile WBSEB[21], the General Conditions of Supply of power framed by the Company, did not have any clause for automatic conversion of consumers, who were persistently drawing power in excess of contract demand for a specified duration of time, from L&MV to HV.

- The billing software had no system of generating disconnection notices or notices for revision of contract demand for consumers drawing in excess.

The Management expressed (July 2010) their helplessness in taking action until the consumer approaches for conversion to HV and enters into a new contract with the Company. They further stated that the Company had taken up (February 2010) the matter with the WBERC for issue of directives in this matter. The Government endorsed (July 2010) the views of the management.

The reply indicates continued inaction on the part of the management to convert consumers persistently drawing higher power from L&MV to HV. These system weaknesses had been pointed out in previous Commercial Audit Report of the Comptroller and Auditor General of India (Para 4.17 and 3.7.3) for the year ending 31 March 2007. It was noticed that out of 45 consumers pointed out in that Report six were converted in bulk category, supply to two consumers were disconnected due to non-payment of dues and balance 39 consumers were still drawing excess power leading to continuous loss of ₹ 1.86 crore from April 2007 to March 2010. Further, there is no need for specific directives of the Commission since the tariff orders clearly lay down applicable tariff as per consumer classification. Consumer classification is the prerogative of the Company and there is no bar on re-catagorisation of consumers based on their consumption pattern. Thus, inadequate system controls within the billing software led to loss of revenue of ₹ 1.53 crore.

[20] Bidhannagar (I), Arambagh, Bashirhat, Kalna, Tarakeshwar, Contai, Memari and Howrah (II).

[21] West Bengal State Electricity Board, the precursor of the Company.

The Company should take immediate measures to revise the categorisation of consumers based on their drawal pattern, considering that drawal of load in excess of contractual load increased load on lines/ transformers leading to increased incidence of burnouts.

West Bengal State Electricity Transmission Company Limited

3.7 Infructuous expenditure due to deficient planning

The Company failed to factor in the restrictions in high rise construction near airport before planning and construction of 132 KV Malda – Balurghat transmission line leading to abandonment of work valued ₹ 5.90 crore, beside non-attainment of the objective of the project.

A single circuit 132 KV line existed between Raigunj and Balurghat 132 KV sub-stations which was the only source of power to Balurghat and Gangarampur 132/33 KV sub-stations. In order to improve power supply in Balurghat, Gangarampur and surrounding areas through a second feeder by providing a second source from Malda in case of failure of the existing line, erstwhile West Bengal State Electricity Board[22] prepared (August 2003) a detailed project report (DPR) for construction of a 132 KV single circuit line from Malda to Balurghat. Subsequently, the work was awarded (November 2005) to Kalpataru Power Transmission Limited at a total cost of ₹ 43.29 crore to be executed between Malda and Balurghat (110 KM). The scheduled date of completion was November 2008. The work was financed by taking loan of ₹ 39.54 crore from Rural Electrification Corporation Limited and balance from own resources.

Ninety *per cent* of the work was completed by August, 2007 when Airports Authority of India (AAI) objected to the construction of transmission towers as those were being erected within the approach funnel[23] of an existing aerodrome. West Bengal State Electricity Transmission Company Limited (Company) suspended (February 2008) work between Gazole and Malda. Thereafter the Company was forced to connect (February 2009) the completed portion of the Malda – Balurghat 132 KV line by tapping an existing Malda-Raigunj 132 KV line at Gazole by keeping the circuit breaker in off position at Raigunj end. This rendered either one of the lines idle while other was utilised. Thus, the objective of providing a second source of power to Balurghat was frustrated as the alternate solution adopted by the Company rendered second source to Raigunj remained unutilised. Finally, the Board of the Company approved closure of the work in August 2009 with work of over 14.27 Km between Malda and Gazole abandoned.

The Aircrafts Act, 1934 and rules[24] there under prohibited construction of high mast towers around an aerodrome. The Company was also responsible for obtaining clearances from AAI under the Indian Electricity Rules, 1956[25]. Yet

[22] West Bengal State Electricity Transmission Company Limited is the successor entity.

[23] The approach funnel is a space around an aerodrome through which aircrafts approach the airstrip.

[24] The Aircraft (Demolition of obstructions caused by Buildings and Trees etc.) Rules, 1994.

[25] Clause 84 of The Indian Electricity Rules, 1956.

the DPR failed to factor in this restriction. Consequently, the transmission lines were proposed to be drawn at one kilometer from the airstrip and within the approach funnel. This oversight resulted in abandonment of works valued ₹ 5.90 crore.

Management stated (July 2010) that abandonment of small stretch of a transmission line cannot be considered deficient planning because during preparation of DPR there was no indication of any air strip or air port and the Company did not receive any objection against the press notification (October 2005) indicating the proposed construction of line. They further stated that after energising of completed portion of Malda-Balurghat line at Gazole, average voltage at Balurghat and Gangarampur sub-stations improved from 118-122 KV to 124-128 KV. Government endorsed (July 2010) the views of the Management.

The reply indicates that the Management relied on lack of objection against press notice rather than conducting proper field route survey. Further, the voltage profile at Balurghat only showed marginal improvement compared to the position before energising the line at Gazole. Therefore as a result of deficient planning, the Company had to suffer infructuous expenditure of ₹ 5.90 crore with the corollary effect of disturbing the alternate power source of Raigunj and thereby failed to meet the objective of the project.

The Company should improve its project planning incorporating inputs from field survey.

3.8 Extra expenditure on irregular award of work

The Company violated Central Vigilance Commission's guidelines in tendering and awarding of contracts to the L_2 bidder leading to extra expenditure of ₹ 2.54 crore.

Central Vigilance Commission (CVC) lists common irregularities / lapses in works and purchase contracts of different Public Sector Undertakings/ Departments and brings out guidelines to obviate recurrence of similar lapses. Amongst others, CVC had directed the following:

- Earnest Money Deposit (EMD) in case of two-bid system[26] needs to be incorporated at a fixed and reasonable amount on the basis of estimated value of work. It was pointed out by CVC (January 2002) that if the EMD is taken on the basis of some stated percentage of tender value, then the confidentiality of the price bid is vitiated since the bid value can be determined by back calculation.

- CVC prohibited negotiations with tenderers other than the lowest (L_1). CVC stipulated that if L_1 tenderer backs out there should be re-tendering in a transparent and fair manner. The Authority may in such a situation call for limited or short notice tender if so justified in the interest of work and take a decision on the basis of lowest tender.

[26] Two bid system of tendering includes a techno-commercial bid and a price bid.

West Bengal State Electricity Board, the predecessor to West Bengal State Electricity Transmission Company Limited (Company) invited (January 2006) tender for construction / erection of towers, stringing of conductors, testing and commissioning of 132 KV Double Circuit transmission lines from Jeerat to Mohispota (26 km) and Domjur to Chanditola (27 km). In the tender notice, the Company stipulated EMD at one *per cent* of the quoted bid price subject to minimum of ₹ 3 lakh. Consequently, when in February 2006 the techno-commercial bids were opened, the comparative statement revealed the price bids, as EMD was also indicated on the same.

The price bids were opened in April 2006 and the work was awarded (May 2006) to the L_1 bidder Aditya Transmission Limited (ATL) at ₹ 5.13 crore. ATL however could not submit bank guarantee and work schedule within the stipulated 30 days. Consequently, ATL was issued (July 2006) 14 days notice towards termination of contract and forfeiture of EMD. In August 2006, ATL sought extension of time upto September 2006. However, the Company terminated (September 2006) the contract with ATL and decided (September 2006) to award the work to Pioneer Construction Company (PCC), the L_2 bidder. The Company negotiated with PCC and finally awarded (December 2006) the work at ₹ 7.54 crore against the original bid of PCC at ₹ 7.66 crore thereby violating CVC's directives. The work was awarded at 46.98 *per cent* above the L_1 price on the grounds that the work was required to be completed urgently as the materials were already procured and higher rates quoted by PCC included cost for obtaining right of way (ROW).

We, however, observed that:

- The contract with ATL was terminated (September 2006) although ATL had obtained bank limit which would facilitate submission of the performance guarantee within next 15 days. However, while the Company terminated this contract on grounds of urgency, the work order was awarded (December 2006) to PCC after three months vitiating the urgency issue.

- As against scheduled 18 months, the work remains incomplete even after expiry of 40 months (April 2010) with only 41 *per cent* of works completed at total out go of ₹ 2.64 crore. This negates the claim that the work had to be undertaken urgently.

- As per general condition of contract bid price was inclusive of ROW costs for both ATL and PCC.

- The transparency of the tendering process was compromised and CVC guidelines violated.

Government/ Management replied (August 2010) that it had considered awarding of the work to L_2 bidder, PCC keeping in view of past experience of earlier tender (December 2004) of not getting any vendor for execution of the work and inevitable mismatch in commissioning of Mohispota 132/33 KV sub-station in absence of this transmission line from Jeerat. They further stated that the costs per kilometer for the work awarded to PCC was lower when compared to similar works undertaken by the Company at other locations.

The reply could not justify the management's contention against retendering due to non response in earlier tender since the earlier tender was for a turnkey work which included both supply of materials and erection whereas the present tender was for erection only. Further, comparison of cost with other works is an afterthought because ground of urgency in completing the work was the prime reason for awarding the work to PCC. Moreover, by violating the CVC guidelines the management not only failed to ensure economy, transparency, fairness and equity in awarding the work but was also unsuccessful in completing the work.

Thus, the Company vitiated the entire tender process by awarding the tender to L_2 bidder at an extra cost of ₹ 2.54 crore.

West Bengal Infrastructure Development and Finance Corporation Limited

3.9 Payment of avoidable interest due to delayed finalisation of accounts

The Company persistently failed to finalise its annual accounts on time, could not assess its own income and had to pay interest of ₹ 74.71 crore for short payment of advance tax.

Section 139 of the Income Tax Act, 1961 (Act) requires a company to submit an annual return of income within the prescribed due date, along with audited annual accounts for the period. Besides this, the Act also requires corporate assesses to estimate their income for a period and deposit tax on such income in advance in four installments. Non-compliance with the above provisions attracts interest at the rate of one *per cent* per month on assessed income/ amount of tax short deposited / amount of tax not deposited.

Since inception in May 1997, West Bengal Infrastructure Development and Finance Corporation Limited (Company) could never finalise its annual accounts on time, so as to enable submission of annual return of income within the prescribed due date (31 October of each year). The Company annexed provisional annual accounts with income tax returns submitted. The date of finalisation of annual accounts for the last five financial years is shown below:

Year	Date of finalisation[27]
2004-05	30-10-2007
2005-06	14-08-2008
2006-07	09-04-2009
2007-08	12-11-2009
2008-09	05-04-2010

The delay in finalisation of annual accounts resulted in the Company being unable to accurately estimate its income, which in turn led to short payment of

[27] Being the date of adoption by shareholders at Annual General Meetings.

advance tax. Besides, the Company followed an erroneous policy of accounting for interest income on cash basis instead of accrual basis. Despite being pointed out in audit[28] from July 2003, onwards, the Company rectified its accounting policies in May 2007 with retrospective effect from April 2004. The delay in rectification of the policy led to a cumulative effect of ₹ 637.04 crore as incremental income, and consequent short deposit of tax thereon. The Income Tax authorities assessed (November 2009)[29] interest on such short deposit of tax at ₹ 74.71[30] crore for the assessment years 2001-02 to 2005-06 under section 234 B and 234 C of the Act. Assessment for the years 2006-07 onwards had not yet been completed. The interest was adjusted (December 2009) by the Income Tax department by reducing refunds receivable on assessment orders of earlier years.

Thus, due to delay in finalisation of accounts and rectification of accounting policy, the Company had to bear avoidable interest of ₹ 74.71 crore.

While accepting (August 2010) that shortfall in advance tax was due to change in accounting policies with retrospective effect, Management stated that interest paid was mandatory not penal, and that there was no error in estimating amount of advance tax at the time of deposit of such tax. Management's contention overlooks the fact that short deposit arose due to its failure to assess income accurately for non-finalisation of accounts on time and delayed rectification of accounting policies with retrospective effect, and was therefore avoidable in nature.

The matter has been reported to the Government (August 2010), their reply was awaited (November 2010).

3.10 Loss due to imprudent investment

The Company incurred capital loss of ₹ 2.93 crore on investment in an underperforming debt mutual fund overlooking its investment objectives and without analysing trend of fund performance; besides lost opportunity of earning interest of ₹ 1.25 crore.

West Bengal Infrastructure Development and Finance Corporation Limited (Company) is a non-banking financial company engaged in raising money from the market and banks to finance infrastructure projects in the State. Investment policy (September 2007) of the Company allowed investment of surplus funds in debt and balanced mutual funds (MF) for the purpose of holding for trade. As per RBI guidelines an investment held upto 90 days is classified as held to trade.

[28] During supplementary audit u/s 619(4).

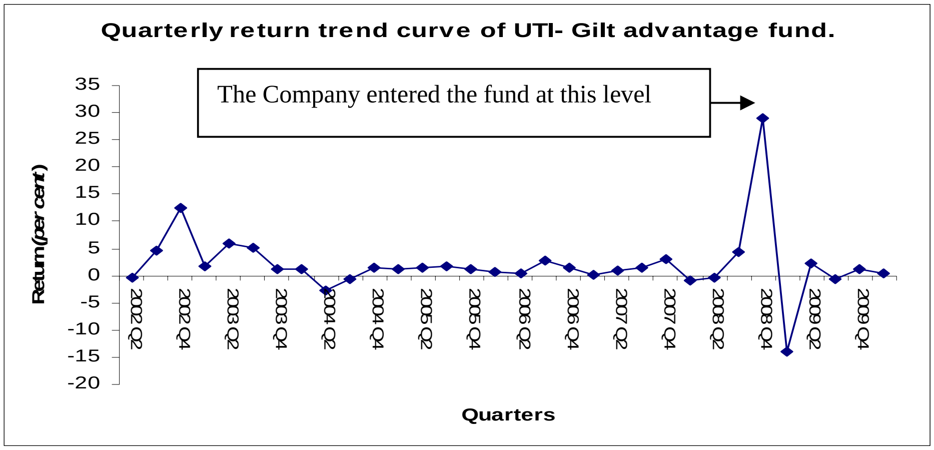
[29] Passed orders between February 2006 to April 2009, as amended through appeals and rectification orders, and finally disposed by Income Tax Appellate Tribunal in November 2009.

[30] 2001-02: ₹ 0.01 crore, 2002-03: ₹ 0.10 crore, 2003-04: ₹ 10.30 crore, 2004-05: ₹ 1.26 crore, 2005-06: ₹ 63.04 crore.

Based on reasonable return earned on liquid funds[31], Investment Committee of the Company decided (December 2008) to invest ₹ 25 crore in 'UTI-Gilt advantage fund –long term plan' (Gilt funds[32]), a long term debt mutual fund at net asset value (NAV) of ₹ 13.8214 per unit. No recorded reasons were shown to audit to justify the decision of investment in this Gilt fund which was a clear departure from the pattern of investment prescribed in the investment policy of the Company and followed so far. Immediately after investment, the NAV of the Gilt fund steadily declined. The Company decided (March 2009) to hold on to the investment expecting to minimise losses with subsequent appreciation in NAV. Between December 2008 and September 2009 the Company earned ₹ 0.74 crore as dividend from the Gilt fund under dividend reinvestment plan. But NAV of the Gilt fund never reached the level at which the Company entered into the fund. Finally in January 2010 the Management redeemed its investment at ₹ 11.83 per unit incurring loss of ₹ 2.93 crore.

We observed the following:

- As per fund brochures, the Gilt fund was suitable for long term investments. Average maturity of its underlying assets was for six years, whereas, the Company's investment objective was to redeem its investments in MFs within 90 days.
- As per fund brochures, the Gilt Fund had consistently underperformed in comparison to its benchmark indices. The Company did not factor this fact into its investment decision.
- Since the rationale behind investment was not analysed, Management failed to realise that it had invested at a NAV level that was at a historic peak of the Fund's return curve since its inception as shown below in graph. Subsequent decline in NAV resulted in loss to the Company which was never recouped.


Quarterly return trend curve of UTI- Gilt advantage fund.

The Company entered the fund at this level

Thus, due to deviation from investment policy in selecting schemes, failure to analyse performance of the MF and consequent selection of an underperforming MF, the Company lost ₹ 2.93 crore. Besides this, the

[31] Funds that predominantly invest in short tem money market instruments.

[32] Funds that invest predominantly in Government Securities.

Company also had to forego interest of ₹ 1.25 crore, which could have been earned on short-term deposits, at the prevailing rate of interest of five *per cent per annum* had the Company invested the amount in a bank.

While accepting the audit observation, the Management stated (September 2010) that selection of the fund resulted from an error of judgment which was an aberration. The Government stated (September 2010) that the Company should have fixed a stop-loss limit to contain the loss.

The Company's decision of investments in mutual funds should match with its investment objective.

Sundarban Infrastructure Development Corporation Limited

3.11 Undue benefit extended to a contractor

The Company extended undue benefit of ₹ 2.15 crore to a contractor by accepting higher item rates, inadmissible measurements, redundant and sub-standard works and paid ₹ 59.47 lakh through doubtful entries in the measurement book during construction of an unfinished bridge.

Sundarban Affairs Department entrusted (March 2008) Sundarban Infrastructure Development Corporation Limited (Company) with the work of construction of a reinforced concrete construction (RCC) bridge and approach road over Sonatikari Khal at Dhakirmukh, in South 24 Parganas District at an estimated cost of ₹ 11.28 crore. The work was to be completed as per technically sanctioned detailed project report (DPR) prepared (June/ August 2007) by Sundarban Development Board (SDB) and progressive payments were to be released by the executive engineer of SDB upon indents of funds by the Company. Since SDB simply released funds as per indents of the Company, it was the overall responsibility of the Company to ensure that the work was completed economically, efficiently and in accordance with the DPR prepared by SDB. The Company placed (March 2008) work order on RIL-KC-JV (contractor) at lowest tendered rate of ₹ 11.62 crore with scheduled completion time of 24 months.

Upto September 2009, 48 *per cent* of the bridge work was completed at a cost of ₹ 5.66 crore. Thereafter, the work was suspended since October 2009 due to ongoing integrity test on piles by Jadavpur University. Audit scrutiny revealed that the Company did not follow appropriate tendering procedures, allowed individual item rates for work in excess of acceptable norms, permitted the contractor to deviate from approved DPR / IRC norms and did not keep appropriate records to measure the progress of work. These led to undue benefit of ₹ 2.15 crore to the contractor besides payments of ₹ 59.47 lakh for work done which was doubtful. These aspects are further discussed below:

3.11.1 Award of work in non-transparent manner at higher rates

PWD code stipulates that rates at which works are awarded should not be higher than market rates beyond five *per cent*. In a clear departure from this stipulation, the Company chose not to seek fresh bids though quoted rates of the contractor for individual items of work were higher by 17 to145 *per cent* over the estimated rates based on PWD (Roads) schedule of rates (SOR). The total bid value was 23.74 *per cent* above estimates which would result in additional cost of ₹ 2.23 crore. The work was awarded to the contractor on the justification that total bid was 2.33 *per cent* above the estimated rates by irregularly including estimated amount of two items[33] (estimated value: ₹ 1.96 crore) which were excluded from the scope of work of the contractor.

Of the total executed work of ₹ 5.66 crore, the rates of six major items[34] of work (value: ₹ 5.12 crore) were higher by 20 *per cent* to 101 *per cent* than those in the SOR which led to extra expenditure of ₹ 1.70 crore.

The Management stated (September 2010) that the rate against individual item does not affect financial implication of a contract and acceptance of rates were justified through sanction of the tender amount by Finance department of the State Government. The reply is not acceptable since sanction of expenditure does not exonerate violation of codal provision which rendered the Company incurring additional expenditure by award of contract in a non-transparent manner.

On further scrutiny of executed works of six items referred above following irregularities emerged.

3.11.2 Extra expenditure on redundant work

After issue of work order, the Company did not insist upon the contractor to execute the work in compliance with sanctioned specifications and drawings of DPR. Instead it allowed the contractor to execute the work on the basis of his own working drawings for reason not on record. The DPR specified construction of 99 piles, each 20 metres long. Scrutiny of design and specification of structure in DPR *vis-à-vis* those of the working drawings of the contractor revealed that both allocated the same specifications for superstructure and sub-structure indicating no change in offered load on foundation. While a group of 13 piles were constructed of 20 metres length, 75 were 25 metres long each and balance 11 piles were yet to be constructed. The Company approved (November 2008/ April 2009) working drawings without recording any justification for additional length of piles and its basis of assessment. It did not approach SDB to assess modification, required, if any, over technically approved specifications for piling in DPR. Since the length of the piles as per DPR was fixed after design calculation with adequate data obtained by detailed geo-technical investigation, their structural soundness was adequately taken care of. The Company allowed the contractor to execute 354.70 metres of additional piling work in 75 piles over and above specification of DPR at a cost of ₹ 45.25 lakh which lacked justification.

The management stated (September 2010) that 75 piles were ‘executed with revised length perhaps in the event of worst soil condition at the changed alignment’ with reference to DPR. The reply itself indicates that work of

[33] Item 4.14 and 5.01 of bill of quantities.

[34] Item 1.01(a), 1.01(b), 1.02(a), 1.02(b), 1.06 and 1.07 of Bill of quantities.

additional length of pile was executed without soil test, design calculation and technical vetting which rendered the expenditure of ₹ 45.25 lakh redundant.

3.11.3 Lack of monitoring and supervision

To ensure execution of scheduled quantities maintaining standard quality of work as per Indian Road Congress (IRC) specification and PWD code the Company was required to maintain work programme, material at site account, site inspection register, check lists, work hindrance register, photographs of progressive stages of work, mandatory test records as per IRC specifications. It was observed that the Company did not maintain such records. In the absence of such authentic records, the source, quality and quantity of material bought to site, utilisation thereof in consonance with progress of work, quality of execution in compliance with IRC specifications and quantity of material booked in MBs could not be cross checked by us. Besides, sanctity of entries in the measurement books (MBs) was doubtful because the site in-charge of the contractor confirmed that entries of measurement were not done at site with his knowledge. Consequently, the Company did not have effective control over the quantity and quality of work executed as discussed below.

3.11.4 Doubtful usage of steel bars

As mentioned in above paragraph the Company/ Contractor was required to maintain material at site account and mandatory test reports of material procured as per IRC specifications. As per MB, steel bars of seven different diameters[35] were used in the work including 21,586.45 metres of 28 mm bars weighing 104.655 MT valued ₹ 59.47 lakh. We observed from the test reports of steel bars that all the sizes of bars were procured and tested except 28 mm bars. Neither the Company nor the contractor maintained material at site account and could not produce any records/ certificates in support of procurement of 28 mm bars indicating lax control mechanism. Therefore, payment of ₹ 59.47 lakh for 104.655 MT 28 mm bars could not be vouchsafed and casts doubt on its utilisation.

The Management stated (September 2010) that the contractor was a renowned TMT steel manufacturer and 28 mm bars were previously tested in their factory and directly supplied to worksite. The contention is not acceptable since documentary evidence such as credentials of the contractor, lot wise independent test report of the materials, delivery challans, site accounts of materials were not furnished to us and sanctity of entries in MB itself were doubtful.

3.11.5 Payment beyond IRC norms

As per specifications[36] for road and bridge works by IRC, length of pile that remained in finished structure should be measured. Such measurement should be restricted to the quantum as per drawings. All vertical reinforcement bars above diameter of 20 mm should be butt welded and would be measured excluding the length of overlaps. Scrutiny revealed that in deviation of this

[35] 10 mm, 12 mm, 16 mm, 20mm, 25mm, 28mm and 32 mm.
[36] Section 1605,1606, and 1608.

measurement norm, the Company allowed payment for 43,535.05 metres vertical bars in 88 piles instead of 36,141.45 metre required for finished structure as per drawing, by irregularly including length of overlaps. Similarly wastage, couplings, weld joints, spacer bars, chairs, stays, hangers etc. shall not be measured and cost of such items were deemed to be included in the rates for reinforcement. However, the Company separately measured spacer bars overlooking IRC norms.

The Management stated (September 2010) that instead of butt welding lap welding is done to hold the vertical load of the reinforcement cage hanging below the joint and measurement of chain bar and space bar is allowed to the agency since it can not be treated as cutting wastage which is included in the rate. The reply is not acceptable since the argument overlooks technical provision of IRC which prohibits such measurement.

3.11.6 Execution of sub-standard work

- As per IRC specification[37] for cast *in-situ* bored piles maximum permissible variation in cross sectional dimension upto (+) 50 mm / (-) 10 mm with reference to specifications in drawings and variation in the final position of the head of piles upto (+) 50 mm over the plan were acceptable.

  Joint physical verification of site by audit, management and contractor revealed that the contractor constructed five piles[38] where cross sectional diameter varied from (+) 150 mm to (–) 140 mm beyond permissible tolerance. This led to construction of three piles less than the diameter specified in drawings, casings of two piles bulging out into oval shape and one pile head being deflected more than 150 mm from center. Yet, instead of asking the contractor for rectification of defective works, the Company accepted the sub-standard work.

The management stated that top portion of the piles were cast on loose soil and would be dismantled upto desired cut off level before casting pile cap. The reply is contrary to the fact because the piles were cast in mild steel casing and not loose soil. Hence any variation in cross sectional dimension and deflection of pile head with reference to drawings beyond permissible norms only indicated poor workmanship and lax monitoring of work.

- For construction of 1,200 mm and 1,000 mm diameter bored piles DPR envisaged use of 25 and 22 numbers of 32 mm longitudinal reinforcement bars upto reduced level (RL) 85.70 and 83.30 metre respectively and 20 mm bars below those levels. But the contractor constructed 66 piles using 16 (32 mm) and 19 (28 mm) bars throughout the full length at those two levels. Resultantly, against the requirement of 132.34 MT bars above RL 85.70 metre/ 83.30 metre and 28.028 MT bars below those two levels, the contractor actually used 85.196 MT and 43.773 MT bars respectively leading to usage of 47.144 MT bar less than required in the upper part and 15.745 MT in excess of

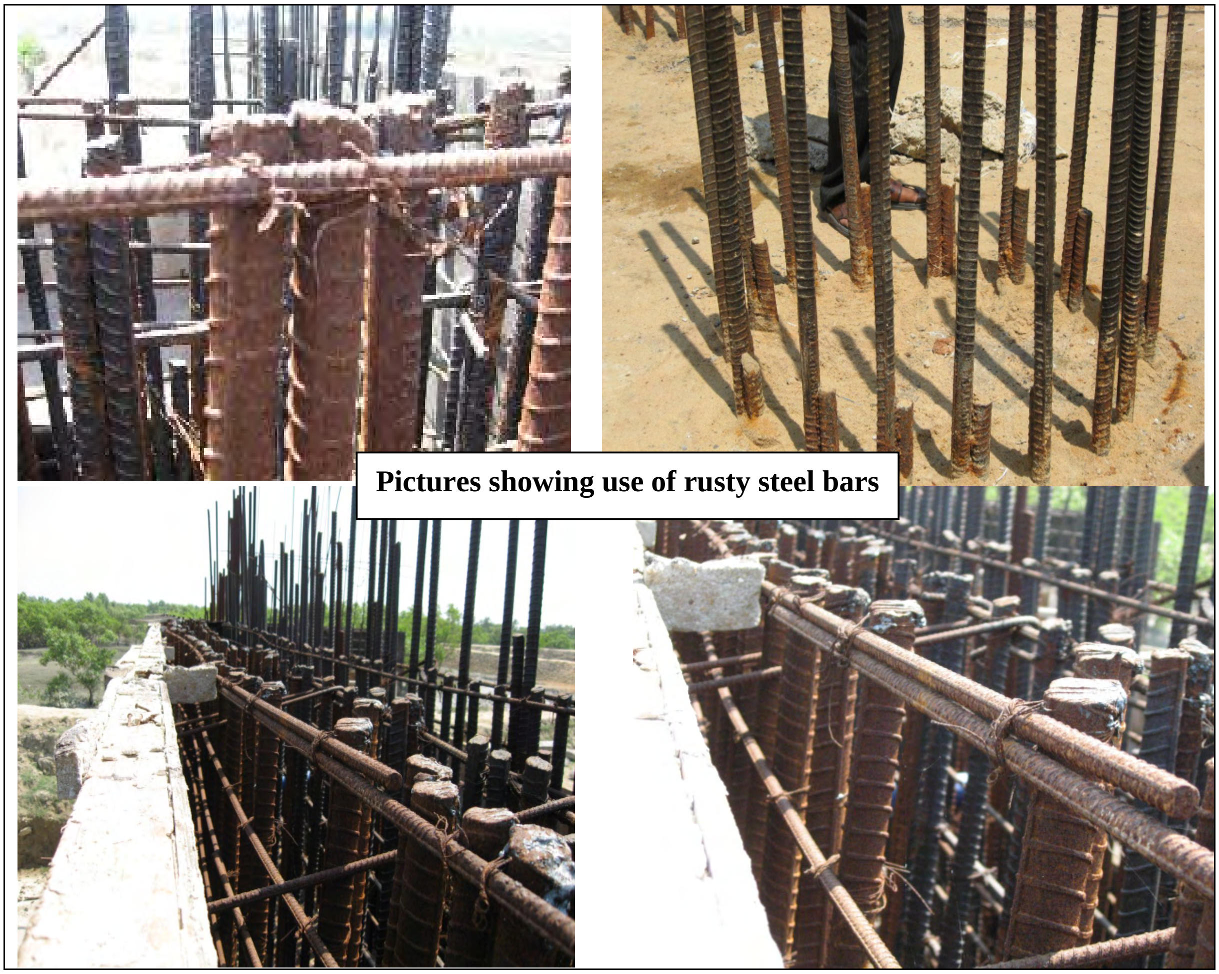
[37] Section 1116 and 1117.

[38] No. P-3/8, P-3/11, P-5/3, P-5/6 & P-5/10.

requirement at lower part. Thus, due to short provision of longitudinal bars and imbalance in reinforcement bars in bored piles the structural safety and durability of the piles have been compromised. Apprehending deficiency in piling work, the Company engaged (March 2010) the Construction Engineering Department of Jadavpur University to assess structural safety and capacity of piles by conducting integrity test. The report of the agency though called for (June 2010) was not submitted to us (November 2010).

Management stated (September 2010) that reinforcement of different piles had been provided as per drawings. The contention, however, does not address the audit observation. By deviating from approved structural design of DPR, the reinforcement work was executed compromising the safety and durability of the bridge structure.

- During site inspection, it was noticed that the concrete work of abutment at one end had bulged out from all sides and horizontally it had taken a wave-like shape. The exposed steel of the ongoing structure was corroded indicating anti corrosive treatment of steel either not having been done or steel from very old stock having been used as shown in picture below, despite incurring expenditure of ₹ 10 lakh towards anti-corrosive treatment.



Pictures showing use of rusty steel bars

These indicated poor workmanship and use of substandard materials. The company neither assessed the magnitude of substandard materials used, the quality of workmanship and the impact thereof on the structural safety and durability nor made any deduction in the rates as per norms before payment to the contractor. Payment at full rates despite sub-standard work amounts to extension of undue benefit to the contractor.

The matter has been reported to the Government (August 2010), their reply was awaited (November 2010).

3.12 Extra expenditure

By deviating from the specifications of Rural Road Manuals the Company incurred extra expenditure of ₹ 99.79 lakh in construction of a rural road.

Rural Road Manual (Manual) of Indian Road Congress (IRC) provides uniform standard design and specifications for rural roads across the states. According to the Manual, design of all-weather durable village roads at minimum cost, should be determined after realistic assessment of present and future traffic intensity by survey and existing load bearing capacity of sub-grade soil by geo-technical investigations. To economise construction cost and facilitate subsequent maintenance, preference should be given to suitable and locally available less expensive materials for construction of roads. A three meter wide carriageway is to be constructed where traffic intensity is less than 100 motorised vehicles per day and traffic is not likely to increase due to circumstances there, like, being a dead-end, low habitation and difficult terrain conditions. Where traffic volume is low, structural layer of bituminous mix need not be provided.

Sundarban Development Board (SDB) entrusted (February 2008) Sundarban Infrastructure Development Corporation Limited (Company) with the task of construction of a 5.06 Km bituminous village road from Siristala to Kanmaribazar in South 24 Parganas district as deposit work. The Company designed the road pavement, prepared (February 2008) cost estimates[39] of ₹ 3.33 crore and completed the work in March 2009 at a cost of ₹ 3.10 crore. Though the estimates were vetted by SDB, it failed to monitor deviation of the same from Manual which led to extra expenditure of ₹ 99.79 lakh as discussed below.

- The Company decided upon the width of the road, thickness of different layers and combination of materials to be used without conducting either field survey of the present traffic and future growth, or carrying out geo-technical investigation on the sub-grade soil along the alignment of the road to ascertain realistic, need based and economic specifications as prescribed in the Manual.

- Consequent upon site inspection (March 2010) it was observed that the road passes through very sparsely inhabited areas and has a dead end at

[39] Estimates were vetted by Chief Engineer, SDB who also held the charge of Executive Director (Technical) of the Company.

Kanmaribazar. It was ascertained from locals through enquiry that the daily traffic volume consisted of 10 to 15 light commercial vehicles with an occasional truck carrying construction material. In terms of the Manual, the present traffic intensity of 14 commercial vehicles per day (CVPD) would rise upto 25 only after 10 years considering a growth rate of six *per cent* per year. Hence, the design of road carriageway with 265 mm sub-base course using locally available jhama metal, brick bat and medium sand and 150 mm base-course with stone metal was more than adequate to cater for the present and future traffic intensity. But, the Company designed the road carriageway with sub-base course of 100 mm layer of stone dust and a 100 mm layer of medium sand, base-course of 150 mm stone metal and a binder course of 50 mm with bituminous macadam. Although the Manual specified use of locally available cheaper material and prohibited use of bituminous course in village roads, the Company used costly stone dust procured from a distant place, overlooking locally available cheaper jhama metal and brick bats for sub-base layers and a bituminous macadam course at an extra cost of ₹ 50.16 lakh.

- Given the traffic intensity, the Company was required to design the road with three metre carriageway to ensure economy as specified in the Manual. But, the Company constructed the road with 3.75 metre carriageway without assessing its necessity, thereby, incurring an additional expenditure of ₹ 49.63 lakh on unwarranted width of 0.75 metre of the road.

The management stated (August 2010) that the estimate was made according to site conditions after conducting field survey on geographical condition, traffic movement and as per demand of the locality, following necessary guidelines for design of road pavement. They further stated that width of the road at 3.75 metre was justified considering the traffic intensity of more than 100 motorised vehicle observed in the survey. Moreover, in view of sufficient availability of fund and poor quality/ availability of local jhama metal, road specification adopted by the Company might be called suitable based on time tested technology.

The contention of the management is not acceptable because **(a)** on an enquiry management itself admitted (August 2010) that field survey, soil test and preparation of detailed project report was not felt necessary as the present work was carried out on an existing brick paved road. Further the roads constructed by other agencies in and nearby areas used locally available cheaper jhama metal and brick bats. **(b)** Post audit traffic survey conducted (July 2010) was not as per the procedure delineated in the Manual and there was error in computation of growth in traffic intensity and **(c)** In order to prevent over design, Manual emphasises need based analytical road design following standard technical specifications, use of locally available materials to ensure economy and efficiency in terms of cost and utility. These were overlooked by the Company.

The matter has been reported to Government (July 2010), their reply had not been received (November 2010).

West Bengal State Police Housing Corporation Limited

3.13 Loss of interest due to poor fund management

West Bengal State Police Housing Corporation Limited, suffered loss of ₹ 4.46 crore by holding idle funds in non-interest bearing current account.

An efficient and effective fund management system ensures both adequate liquidity to meet expenses and enables investment of surplus fund in appropriate instruments to maximise interest income. Banks provide flexi-deposit schemes to enable their customer to fulfill both objectives. Flexi-deposit schemes provide automatic investment of surplus fund into term deposits from current account. It also allows automatic encashment of term deposits when funds are required to meet an impending expenditure.

West Bengal State Police Housing Corporation Limited (Company) received funds from the Central Government under the scheme for modernisation of State police forces. It received ₹ 36.92 crore during 2007-08 to 2009-10 for different schemes but released only ₹ 18.28 crore. The Company could not spend the funds due to administrative/ infrastructural constraints and absence of directives from the State Government. Instead, it retained the money in a current account with State Bank of India (SBI). Between April 2007 and December 2009, the Company progressively held ₹ 2.10 crore to ₹ 34.93 crore without earning any interest. The statutory auditors Report[40] and the Inspection Reports[41] had pointed out the possibility of earning revenue on the idle fund from time to time, but to no avail. As a result, the Company not only failed in efficient utilisation of unspent funds to earn interest[42] of ₹ 4.46 crore between April 2007 and December 2009 but also attainment of the objective of the scheme remained unachieved.

Management stated (July 2010) that the funds had not been parked in any term deposit / savings bank account so as to permit unrestricted withdrawal at the time of necessity. They also stated that there were no instructions from the State Government for parking the funds in term deposits.

The reply is contradictory to the management's own assertion as no detailed/ comprehensive action plan for implementing schemes had been intimated by the State Government, which indicates no immediate necessity of release of funds. The Company's argument that no directions had been received for parking of the funds in term deposits ignores the basic tenets of financial propriety which mandates efficient use of public money.

The matter was reported to the Government (June 2010), their reply had not been received (November 2010).

[40] 2007-08 and 2008-09.

[41] March 2007.

[42] Interest rate depending on tenure of investment ranged between four *per cent* and 10 *per cent.*

West Bengal Industrial Development Corporation Limited

3.14 Loss due to improper fixation of selling price of plots

Improper fixation of price of plots at Poly park without preparation of estimate and non-inclusion of clause for subsequent revision of price led to loss of ₹ 2.51 crore.

At the request of Indian Plastic Federation[43] (IPF), West Bengal Industrial Development Corporation Limited (Company) decided (June 2005) to set up a Poly park at Sankrail in Howrah district with a view to attract small and medium plastic processing industry by providing built in infrastructure like road, water and power supply system, drainage and sewerage system etc. The Company purchased (July – August 2005) 60 acres of land at a cost of ₹ 9.49 crore. Without preparing the detailed project report (DPR) and cost estimate for setting up the Poly park, the Company quoted (June 2005) a rate of ₹ 35 lakh *per* acre to IPF which was later reduced to ₹ 33.50 lakh consequent upon negotiation. The Company allotted (April 2006) plots to the members of IPF on 99 years lease at the rate of ₹ 33.50 lakh *per* acre with staggered terms of payments up to January 2007. Neither the allotment letter nor the agreements entered into with each allottee had any provision for revision of rate in case of cost escalation in development of the park.

Meanwhile, the Company had a DPR prepared (February 2006) for the Poly park by a project management consultant (PMC). The DPR envisaged estimated project cost of ₹ 17.26 crore to be financed through sale of plots to the allottees. During the same time the Company had also planned (March 2006) infrastructural development of phase-II of a Food park in adjoining 52 acres of land at an estimated cost of ₹ 15.24 crore to be financed by sale of plots to allotees (₹ 11.94 crore)[44] and subsidy from Central Government (₹ 3.30 crore). The Company awarded (January/ April 2006) a consolidated work order to a contractor covering land filling and construction of road, provision of water supply, drainage pipeline, lighting and electrical works worth ₹ 14.45 crore for the Poly park and adjoining Food park, scheduled to be completed by January 2007.

The work was completed in March 2007 at an enhanced cost of ₹ 19.46 crore due to additional work of pond filling and excess earth filling. The final cost of development of Poly park stood at ₹ 20.85 crore[45] including land cost (₹ 9.49 crore), PMC charges and promotional expenses. The Company realised ₹ 18.34 crore[46] by selling 53.45 acres of allottable plots in the Poly park. Since, there was no clause for revision of price in the allotment letter / agreements, the Company suffered loss of ₹ 2.51 crore in sale of plots at Poly park.

[43] A body of plastic processors and dealers in Kolkata.

[44] Company sold the plots on 99 years lease at the rate of ₹ 41 lakh *per* acre.

[45] Excluding cost of interest, if any, on initial investment made by the Company on land purchase since the management had not worked it out.

[46] Including four plots sold at higher rates of ₹ 44 lakh per acre.

In reply, the management stated (June 2010) that considering Food park and Poly park as an integrated project, the Company earned net surplus of ₹ 1.62 crore after accounting for subsidy received for both the parks. It further stated that price of Poly park was fixed considering the location and financial strength of the entrepreneurs of plastic sector.

The reply is not convincing as separate DPRs were prepared for Poly park and Food park taking into account different activities, feasibility and land price. Moreover, Government of India sanction revealed that subsidy was released for food park only. Hence these two parks cannot be treated as parts of an integral project. Even considering the Company's argument, as per updated financial position (September 2010) of these two parks the Company recorded a meagre surplus of ₹ 8.64 lakh only as against ₹ 1.62 crore reported by the Company. The Company's further contention regarding fixation of selling price for Poly park considering the location and financial strength of the entrepreneurs of plastic sector is not acceptable since the Company is expected to guard its financial interest.

Thus, due to improper fixation of price of plots without preparation of estimate and non-inclusion of clause for subsequent revision of price in allotment letter/ agreement, the Company suffered loss of ₹ 2.51 crore. The Company should fix price with proper estimates and include price revision clause in the agreements.

The matter was reported to the Government (April 2010), their reply had not been received (November 2010).

Westinghouse Saxby Farmer Limited

3.15 Release of advances without proper financial safeguards

In violation of contractual terms, the Company released advances to the sub-contractor and failed to recover ₹ 2.47 crore from either the sub-contractor or the principal employer due to termination of work before completion.

Westinghouse Saxby Farmers Limited (Company) was awarded (September 2002) an order for construction of different types of buildings and internal roads by West Bengal State Electricity Distribution Company Limited[47] (WBSEDCL) at its Purulia Pump Storage Project site. The order was valued at a firm price of ₹ 5.73 crore with scheduled completion time of 15 months (for the buildings) and six months (for the roads) from the date of commencement of work.

The Company sub-contracted the work to Nirman Construction (the sub-contractor) at a cost of ₹ 5.44 crore. The terms and conditions of the sub-contract stipulated, *inter-alia,* that:

[47] A successor company of the erstwhile West Bengal State Electricity Board.

(i) No mobilisation advance would be granted and on account payment would be released on the basis of actual work executed and measured jointly; and

(ii) Payments to sub-contractor would be made after receipt of relevant payments from WBSEDCL.

It was observed that time limit for completion of the work was not mentioned in the work order to the sub-contractor. After a lapse of two and half years from scheduled date of completion (February 2004), the work was not completed. Further, in deviation from the terms and conditions of the contract, without ratification of the Board of Directors and without any security/ bank guarantee, Managing Director (MD) of the Company approved release of ad-hoc advances to the sub-contractor from March 2003 to November 2005, aggregating ₹ 6.38 crore. Subsequently, the Company could adjust only ₹ 3.39 crore from the running account bills of the sub-contractor, while ₹ 0.52 crore[48] remained withheld. An amount of ₹ 2.99 crore remained unadjusted till date (September 2010). Ultimately WBSEDCL terminated (July 2006) the contract on the ground of non completion of work. Upto the date of termination the Company had received ₹ 3.63 crore[49] from WBSEDCL. The Company's position was further jeopardised as its claim for cost escalation from WBSEDCL was not agreed upon (May 2005) by the adjudicating authority, and money suit on the matter remained unsettled.

While admitting the facts, Management stated (May 2010) that **(i)** advances were released upon verbal assurances of reimbursement from the local management of WBSEDCL, **(ii)** considering the past experience and association with the sub-contractor, maintenance of security deposit against release of advances was initially not felt necessary and **(iii)** payments were made in good faith in the interest of completion of the project.

The fact remains that approval for release of advances by MD without proper financial safeguards, rendered the amount of ₹ 2.47 crore[50] doubtful of recovery, besides loss of interest of ₹ 1.10 crore[51] upto March 2010. The Company should fix responsibility to establish accountability.

The matter was reported to the Government (April 2010), their reply had not been received (November 2010).

[48] Withheld from running account bills ₹0.32 crore and towards security ₹0.20 crore.

[49] After adjusting ₹0.34 crore towards security deposit and ₹0.31 crore towards liquidated damages for delayed execution of work.

[50] Total advance ₹2.99 crore *less* ₹0.52 crore withheld by the Company.

[51] Calculated @ 8 *per cent* on amounts outstanding after adjustment of running account bills and amount withheld.

Webel Consumer Electronics Limited

3.16 Unproductive expenditure on salary and non-utilisation of assets

The Company continued to incur unproductive expenditure of ₹ 14.90 crore on salaries and other expenses in spite of total cessation of production activities and failed to gainfully utilise its assets worth ₹ 25.46 crore.

Webel Consumer Electronics Limited (Company) was incorporated in June 1981 to manufacture television sets. Though private promoters invested (1985) in the equity of the Company, West Bengal Electronics Industry Development Corporation Limited (WBEIDC)[52] held controlling interest since November 1999 by subscribing to 64 *per cent* of its equity capital. Since 1996-97, the Company incurred losses due to technological obsolescence, working capital shortage, poor brand development, target market being limited to West Bengal and lower productivity due to outdated machines.

From April 1995 the Company decided to assemble television sets after receiving materials in semi-knocked down condition from original equipment manufacturers. But, the conversion charges received by them were insufficient to meet operative expenses. In order to sustain these activities the Company passed on 85 *per cent* sales tax refund[53] received from the State Government to original equipment manufacturers. Even after receiving sales tax subsidy the Company posted negative EBIDTA[54] margin during 2003-04 to 2005-06. The Company resorted to interest free loans (₹ 19.89 crore upto March 2006) from WBEIDC to meet its operational shortfall. After the State Government withdrew the scheme of refund of sales tax in March 2006, production activities declined and finally stopped. The Company's net worth had been completely eroded in 1997-98 and accumulated loss at the time of stoppage of production stood at ₹ 35 crore as on 31 March 2006 against paid up capital of ₹ 8.02 crore indicating its perpetual inability to remain as going concern.

The Management/ WBEIDC remained indecisive on plans for revival of the Company. The Management also ignored the State Government's decision (April 2004) seeking restructuring proposals. Consequently, State Government did not include the Company in the early retirement scheme (ERS), whereby five other loss-making subsidiaries of WBEIDC were closed down (September 2004) after implementing ERS. Moreover, the Company obtained (April 2006 – March 2010) interest free loans of ₹ 14.90 crore from WBEIDC to meet unproductive expenditure on salary (₹ 13.64 crore) and other administrative overheads (₹ 1.26 crore). The Company implemented (January 2010) a voluntary retirement scheme whereby 17 out of 131 employees opted for retirement at a cost of ₹ 2.03 crore, met out of fresh loans from WBEIDC. The scheme neither served to reduce employee strength

[52] A State Government PSU, being a nodal agency for development of electronics and IT sector.

[53] Under West Bengal Industrial Promotion (Assistance to Industrial Units) scheme 1994, WCEL received 90 *per cent* refund of sales tax from the State Government.

[54] Earnings before interest, depreciation, taxes and amortisation.

sufficiently so as to initiate winding up procedures nor did it reduce administrative overhead to any pre-determined target level. On the other hand, the possibility of generation of sufficient cash for repayment of loans appeared bleak. The State Government appointed consultant for suggesting restructuring proposals, who recommended (December 2006) fresh investments through strategic private partners. However, attempts to secure suitable private partners for capital infusion / product diversification did not materialise.

In addition, the Company had not explored options for gainful utilisation of 1.91 acres (83,200 square feet) of leasehold land, valuing ₹ 25.46 crore, on the basis of valuation of similar property in the same locality by an independent consultant. Out of 1.91 acres, land measuring 0.22 acres had been acquired (November 2004) by WBHIDCO[55] for construction of road, without payment of any consideration or transfer of compensatory land. Further, no study had been undertaken to estimate the realisable value or the utility of machinery (book value: ₹ 1.85 crore) lying idle since March 2006.

In reply, the Company stated (October 2010) that 26 employees had been deployed at various units of WBEIDC and management is exploring the possibility of deploying remaining employees in different units of WBEIDC to reduce the cost. They further added that out of the existing land, 2,685 square feet had been rented out since August 2010 at ₹ 0.65 lakh per month.

The reply does not vitiate the audit observation that the Company continued to incur unproductive expenditure on salary to employees not yet re-deployed. Moreover, utilisation of 2,685 square feet land with small rent was meagre compared to the 83,200 square feet land held by the Company indicating lack of seriousness of the Management in this effort considering the potential land value. The Company / Government should explore avenues to enhance earning capacity of the Company or alternatively consider closure.

The matter has been reported to the Government (August 2010), their reply had not been received (November 2010).

West Bengal Transport Infrastructure Development Corporation Limited

3.17 Loss due to investment in risky mutual fund instrument

The Company invested in equity mutual funds without adequate planning and research leading to loss of ₹ 1.26 crore towards principal erosion, besides loss of interest of ₹ 31 lakh.

West Bengal Transport Infrastructure Development Corporation Limited (Company) receives funds from the State Government towards execution of various projects. Besides this, the Company also has self-generated funds in the form of operating profits and interest earned on short-term deposits.

[55] West Bengal Housing Infrastructure Development Corporation Limited, a Government company.

Though no guidelines were laid down by the State Government for investment of funds by public sector enterprises within its administrative control, the Central Government had specified (December 1994) that public sector enterprises should invest only in instruments with maximum safety and there should be no element of speculation on the yield on such investments.

The Company decided to invest funds not immediately required for any purpose, in mutual funds and amended (March 2007) the Memorandum of Association so as to permit such investment. Accordingly, the Company invested (January / February 2008) ₹ 2.40 crore in the initial public offerings of equity schemes of three mutual funds[56]. The Net Asset Values (NAV)[57] of each of the mutual funds declined from ₹ 10 per unit (at the time of investment) to ₹ 5.2618, ₹ 6.1504 and ₹ 7.2187 in March 2009. Ultimately the Company switched out of these funds in July 2009 when the value of investments was ₹ 1.14 crore, indicating erosion of principal value of ₹ 1.26 crore. That the Company did not need these funds at the time is evident from the fact that these were reinvested in three other mutual funds on the same date, and continued to be held till date of audit (December 2009).

In this context, the following points were observed:

- The three mutual funds where the amount was invested were new fund offers and therefore had no previous track record. This deprived the Company of the benefit of trend analysis, as would have been available in case of an existing fund.
- The Company had no prior record of investments in mutual funds. No benchmarks (e.g. Sharpe ratio, Treynor's ratio, Beta)[58] were established to evaluate acceptable degree of risk associated with such investments.
- The Company did not prepare any cash budget or cash flow statement. It had no means to identify sources and application of funds. Consequently, it could not judge the length of time for which a fluctuating market-driven investment should be held on to. Therefore, when the NAV of the investments declined, the Company switched out, instead of waiting for revival in NAV. It failed to appreciate the fact that equity mutual funds are long-term investments, wherein the effect of short-term fluctuations is evened out in the long-term. This is evident from the fact that the NAV of the funds rose to ₹ 10.04, ₹ 9.74 and ₹ 10.14 per unit (as on 19 March 2010).
- In addition to non-preparation of cash flow statements, the Company had not framed any 'stop-loss' policies, whereby an investor indicates settlement/ switch-out upon reaching a pre-decided level of NAV.

[56] Franklin Templeton Investments (₹ 2 crore), Birla Sun Life Special Situation Fund (₹10 lakh) and Reliance Natural Resources Fund (₹30 lakh).

[57] The market value of the investments made in a mutual fund.

[58] These ratios measure the degree of risk of the investments against expected returns.

Thus, it is evident that the Company ventured into a risk prone investment area without adequate research, planning and policies. Due to such imprudent fund management, the Company suffered a loss of ₹ 1.26 crore. Besides this, the Company also had to forego interest of ₹ 31 lakh, which could have been earned on short-term deposits, at the prevailing rate of interest of nine *per cent per annum* had the Company invested the amount likewise.

The Management attributed (October 2010) the loss to its inexperience in capital market exposure. The reply confirms our observation that the lack of laid down investment policies and guidelines prevented the Company from taking appropriate decisions timely.

The matter was reported to the Government (April 2010), their reply had not been received (November 2010).

West Bengal Essential Commodities Supply Corporation Limited

3.18 Undue benefit to rice millers

Without ensuring actual payment of market fees by rice millers the Company reimbursed ₹ 1.52 crore to them overlooking the Government of India directives in this regard.

Under decentralised procurement of rice, the State Government on behalf of Government of India (GoI) purchases paddy and rice at prices notified by GoI at the beginning of each *Khariff* Marketing Season (KMS)[59] for distribution to target population. GoI notified prices *inter-alia* include the cost of paddy at minimum support price, market fee, price of gunny bags, handling, transportation, milling and storage charges based on the conversion ratio of paddy to parboiled rice at 68 *per cent*. In the price notifications for KMS 2005-06 to 2007-08, GoI instructed (November 2005, November 2007) that payment relating to statutory charges like market fee, mandi charges etc. would be admissible only on production of relevant official/ statutory receipts or certificates evidencing such payments by procurement agencies to respective authorities including state marketing boards. Under the provision of West Bengal Agricultural Produce Marketing (Regulation) Act, 1972 (Act) onus of deposit of market fee is on the seller of paddy/ rice. Therefore, State Government or its agencies should either reimburse the payment of market fee on production of requisite receipt or deduct the amount before releasing payment for delivery of rice.

State Government at the beginning of each KMS engaged (November 2005-December 2007) West Bengal Essential Commodities Supply Corporation Limited (Company) for purchasing paddy from farmers at GoI notified prices and milling the same through designated rice mills for delivery of rice to the State Government/ Food Corporation of India.

[59] Khariff marketing season starts from October and ends in September of subsequent calendar year.

During KMS 2005-06 to 2007-08 the Company in turn engaged 79 to 163 rice millers as its supporting agents for procurement operation. It was noticed in audit that the Company paid (November 2005 and May 2008) market fee of ₹ 1.52 crore on purchase of 3,26,832 MT rice at the rate of ₹ 41.91 to ₹ 62.51 per metric tonne (MT) to the millers without obtaining any receipts or requisite certificates from the concerned authorities in support of payment of such charges. On an enquiry (July 2009) by audit, West Bengal State Marketing Board[60] (Board) informed that except BENFED and NAFED no agency had paid any market fee during KMS 2005-06 to KMS 2007-08. Further, the rice millers had refused to refund the market fee to the Board. Thus, by violating GoI directives and overlooking the provision of the Act the Company extended undue benefit of ₹ 1.52 crore to rice miller.

The Company should vigorously pursue with millers for refund of marketing fees or deduct the amount from their bills in subsequent years.

The matter has been reported to the Government/ Management, their replies are awaited (November 2010).

West Bengal Small Industries Development Corporation Limited

3.19 Loss due to failure to evict a tenant after expiry of contract

In absence of agreement the Company failed to evict a tenant after expiry of contract who continued at lower rent leading to loss of ₹ 57.60 lakh.

In order to make productive use of an unutilised leasehold land in the port area of Kolkata, West Bengal Small Industries Development Corporation Limited (Company) rented out (April 1997) the land to G Q Mondol (GQM) at a monthly rent of ₹ 2.17 lakh for two years. The initial tenure was extended for a further period of four years with enhancement of monthly rent to ₹ 2.52 lakh per month. Thereafter, the matter of rent was discussed (November 2004) between GQM and the management of the Company, wherein a decision was taken to permit the former to occupy the premises for another three years at ₹ 2.55 lakh per month from December 2004, with a provision for annual increase of rent at par with the enhancement of lease rent by Kolkata Port Trust. Though no written agreement was entered into, GQM paid rent in accordance with the decision taken. After the end of the period of three years, i.e November 2007, in the absence of evidence of deliberation on the matter, GQM continued to pay rent at the rate of ₹ 2.66 lakh to ₹ 2.80[61] lakh per month. The Company accepted the payments without written agreements specifying enhancement clauses or assessment of fair rental values.

Finally, after ten months from the date of last extension (November 2007), the Company invited tenders (August/ September 2008) for leasing out the land for 15 years. In response to the tender notice, five offers were received (September 2008) of which the offer of ARA Properties at ₹ 6 lakh per month

[60] An apex body of Regulatory Market Committees in the state.

[61] Considering enhancement of rent as per Kolkata Port Trust.

was the highest. Three months later, the Company issued (December 2008) a notice to GQM allowing three months (up to March 2009) to vacate the land, which the latter had not complied with till date (September 2010). The Company continued to accept rent as being paid and neither asked for enhancement of the rent to ₹ 6 lakh per month as offered by ARA Properties nor initiated legal action to evict GQM. The absence of a valid and enforceable legal agreement precluded the Company from seeking prompt redressal. Meanwhile, ARA Properties once again sought (April 2009) finalisation of their offer, but the same could not materialise as the Company could not get the land vacated.

Admitting the fact the Management stated (August 2010) that it had initiated (June 2010) legal action to evict GQM, which was being pursued in the court.

However, the fact remains that due to delay in inviting tender coupled with its delayed action to evict the occupier, the Company could not let out the land at higher rate, leading to consequential loss of revenue of ₹ 57.60 lakh[62] for the period from April 2009 to September 2010.

The matter was reported to the Government (May 2010), their reply had not been received (November 2010).

Statutory Corporation

West Bengal Industrial Infrastructure Development Corporation

3.20 Failure to develop a growth centre

The Corporation failed to develop Bolpur growth center due to selection of incapable partner, entering into defective agreement and non-inclusion of safeguard clause in case of default in project execution. This forced it to forego development fees earned, besides extending undue benefit of ₹ 2.30 crore to joint venture partners.

In order to develop a service hub/ growth centre with private partners over 197 acres of land at Bolpur, the West Bengal Industrial Infrastructure Development Corporation (Corporation) entered (May 2006) into a joint venture with a consortium led by Indian Overseas Export (Private) Limited. A joint venture company named Shantiniketan Infrastructure (Private) Limited (SIPL) was formed (May 2006) with 26 *per cent* of the share capital being contributed by the Corporation and 74 *per cent* being contributed by the consortium members. A development agreement was signed (May 2006) between Corporation and SIPL granting development right for 99 years to the latter for a total consideration of ₹ 8.75 crore. SIPL would complete the development work of the growth center within six years from the date of agreement and pay development fees of ₹ 6.50 crore upfront to the Corporation. The balance amount of ₹ 2.25 crore would be payable in five equal annual installment (₹ 45.07 lakh) within six years from the date of

[62] (₹ 6.00 lakh – ₹ 2.80 lakh) x 18 months = ₹ 57.60 lakh and would increase further till present tenant is either evicted or pay rent at enhanced rate.

agreement. In addition SIPL also agreed to pay annual lease rent of ₹ 8.75 lakh for the entire lease period. Accordingly, the Corporation on receipt (May 2006) of development fees of ₹ 6.50 crore handed over possession of the land to SIPL for commencement of project work.

However, SIPL failed to obtain loan for the project and consequently could not develop the land. After lapse of two years from the date of handing over the site, SIPL constructed (June 2008) only site office and boundary wall. Concerned with unsatisfactory performance of SIPL and unable to find new joint venture partners, the Corporation decided to dispense with the idea of developing the growth centre. Accordingly the Corporation refunded (September 2009) development fees received (₹ 6.50 crore) together with interest accrued thereon (₹ 2.04 crore) and expenses[63] incurred (₹ 56.11 lakh), and repossessed the land. The Corporation also sold its 26 *per cent* stake in SIPL and recovered its equity contribution (₹ 13 lakh). Thus, the objective of development of growth center at Bolpur remained unachieved.

We observed that the development agreement was deficient to the extent of non-inclusion of implementation schedule with interim milestones, non-specification of corrective action in the event of slippage of milestones and non-inclusion of forfeiture clause in case of default in project execution by SIPL. This resulted in refund of development fees earned by the Corporation. Further, though there were no enabling provisions in the development agreement or in the joint venture agreement, the Corporation agreed to pay ₹ 2.04 crore as interest on the development fees received (and later refunded). This led to the Corporation's income being transferred to the joint venture partners without obtaining any corresponding return. Besides this, the Corporation also failed to recover lease rents of ₹ 26.25 lakh receivable as per the development agreement.

Thus, the Corporation entered into defective agreement by not safeguarding its financial interest. This forced it to forego development fees received and extension of undue benefit of ₹ 2.30[64] crore to joint venture partner.

While accepting the audit observation, the Management stated (August 2010) it had claimed a refund from SIPL. The Government endorsed (September 2010) views of the management. However, no recovery had been made till date (October 2010). The Corporation should follow up the matter to ensure prompt recovery and explore alternative possibilities for execution of the project.

3.21 Follow-up action on Audit Reports

Outstanding departmental replies on paragraphs appeared in the Audit Reports

3.21.1 Reports of the Comptroller and Auditor General of India contain observations arising out of scrutiny of accounts and transactions of various

[63] Expenses on construction of site office – ₹ 42.86 lakh and consultancy charges ₹ 13.25 lakh.

[64] ₹ 2.04 crore interest *plus* ₹ 26.25 lakh lease rent.

Government companies and statutory corporations. Therefore, it is necessary that the executives give appropriate and timely response to them. Finance Department, Government of West Bengal instructed (June 1982) all the administrative departments to submit explanatory notes to the West Bengal Legislative Assembly with corrective/ remedial action taken or proposed to be taken on the observations included in the Audit Reports within one month from the date of communication of laying of the Audit Reports in the State Legislature.

Though the Audit Reports for the years 2002-03, 2003-04, 2004-05, 2005-06, 2006-07, 2007-08 and 2008-09 were presented to the State Legislature in August 2004, August 2005, July 2006, March 2007, March 2008, July 2009 and July 2010 respectively, 17 departments, whose activities were commented upon did not submit their explanatory notes on 48 out of 183 paragraphs/ reviews as of September 2010, as indicated in **Annexure 23**. It would be seen from the annexure that the departments largely responsible for non-submission of explanatory notes were Power, Public Enterprises, Commerce and Industries, Information Technology and Transport. Government did not respond to even paragraphs/ reviews highlighting important issues like misappropriation, fraud, system failure, mismanagement, non-adherence to extant provisions, etc.

Outstanding action taken notes on the Reports of the Committee of Public Undertakings (COPU)

3.21.2 Reports of the COPU presented to the Legislature contain recommendations and observations on which administrative departments are required to submit their Action Taken Notes (ATNs) within six weeks from the date of receipt of COPU recommendations. Even after the lapse of five to 133 months, six departments did not furnish the ATNs on 38 recommendations relating to 13 COPU Reports presented (June 1999 - March 2010) to the State Legislature (**Annexure 24)**.

Response to the Inspection reports, draft paragraphs and reviews

3.21.3 Irregularities/ shortcomings noticed during the periodical inspections of Government Companies/ Corporations and not settled on the spot are communicated through the Inspection Reports (IRs) to the respective heads of PSUs and the concerned departments of the State Government. The heads of PSUs are required to furnish their replies to the IRs through the respective heads of the departments within a period of six weeks. A half yearly report is being sent to the Principal Secretary/ Secretary of the departments in respect of pending IRs to facilitate monitoring of the audit observations in those IRs.

The Inspection Reports issued up to September 2010 pertaining to 42 PSUs disclosed that 128 paragraphs relating to 77 IRs remained outstanding at the end of September 2010, of which 17 IRs containing 32 paragraphs had not been replied to, though more than two years had elapsed. The department-wise break up of IRs and audit observations as of September 2010 is given in **Annexure 25.** In order to expedite settlement of the outstanding paragraphs, Audit Committees were constituted in 16 out of 21 departments. During October 2009 to September 2010 two such committees settled 70 paragraphs.

Similarly, the draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the administrative department concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. It was, however, noticed that the ten draft paragraphs and one draft performance audit review forwarded to various departments during April to August 2010, as detailed in **Annexure 26** had not been replied so far (November 2010).

It is recommended that the Government should ensure that **(a)** procedure exists for action against the officials who failed to send replies to inspection reports/ draft paragraphs/ reviews and ATNs on recommendations of COPU, as per the prescribed time schedule; **(b)** action to recover loss/ outstanding advances/ over-payment is taken within the prescribed period and **(c)** system of responding to audit observations is revamped.

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