Overview

1 Overview of State Public Sector Undertakings

Audit of Government companies is governed by Section 619 of the Companies Act, 1956. The accounts of Government companies are audited by Statutory Auditors appointed by CAG. These accounts are also subject to supplementary audit conducted by CAG. Audit of Statutory corporations is governed by their respective legislations. As on 31 March 2010, the State of West Bengal had 72 working PSUs (63 companies and 9 Statutory corporations) and 20 non-working PSUs (19 companies and one corporation), which employed 0.72 lakh employees. The working PSUs registered a turnover of ₹ 21,669.75 crore for 2009-10 as per their latest finalised accounts. This turnover was equal to 5.89 *per cent* of State GDP indicating an important role played by State PSUs in the economy.

Investments in PSUs

As on 31 March 2010, the investment (Capital and long term loans) in 92 PSUs was ₹ 41,810.57 crore. It grew by over 22.76 *per cent* from ₹ 34,057.55 crore in 2004-05. Power and finance sector accounted for nearly 80.50 *per cent* of total investment in 2009-10. The Government contributed ₹ 1,205.10 crore towards equity, loans and grants/subsidies during 2009-10.

Performance of PSUs

During the year 2009-10, out of 72 working PSUs, 32 PSUs earned profit of ₹ 562.87 crore and 36 PSUs incurred loss of ₹ 644.31 crore while three PSUs prepared accounts on 'no profit no loss' basis, while one PSU had not finalised its first accounts. The major contributors to profit were West Bengal State Electricity Transmission Company Limited (₹ 174.68 crore), Haldia Petrochemicals Limited (₹ 134.64 crore), West Bengal Rural Energy Development Corporation Limited (₹ 99.41 crore) and West Bengal State Electricity Distribution Company Limited (₹ 71.05 crore). Heavy losses were incurred by The Durgapur Projects Limited (₹ 172.57 Crore), The Calcutta Tramways Company (1978) Limited (₹ 110.19 crore), Calcutta State Transport Corporation (₹ 46.98 crore), and The Kalyani Spinning Mills Limited (₹ 41.72 crore).

The losses are attributable to various deficiencies in the functioning of PSUs. A review of three years' Audit Reports of CAG shows that the State PSUs' losses of ₹ 5,033.47 crore were controllable with better management.

Thus, there is tremendous scope to improve the functioning and enhance profits. The PSUs can discharge their role efficiently only if they are financially self-reliant. There is a need for professionalism and accountability in the functioning of PSUs.

Quality of accounts

The quality of accounts of PSUs needs improvement. Out of 74 accounts finalised during October 2009 to September 2010, 42 accounts received qualified certificates. Further, statutory auditors and CAG had commented on 23 accounts with total impacts of comments of ₹ 680.93 crore on their reported profitability. During the year there were 89 instances of non-compliance with Accounting Standards in 30 accounts. Reports of Statutory Auditors on internal control of the companies indicated several weak areas.

Arrears in accounts and winding up

Out of 72 working PSUs only 31 PSUs had finalised their accounts for 2009-10 upto September 2010. The accounts of remaining 41 PSUs were in arrears for periods ranging from one to six years. There were 20 non-working PSUs of which two had finalised their accounts for the years for 2009-10 while 16 PSUs had arrears of accounts for one to eight years. The remaining two PSUs had gone into voluntary winding up process. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

Placement of SARs

With the intervention of the highest authority of the Government there was marked improvement in placement of SARs in State Legislature. There was delay of one to 10 months in respect of four SARs only compared to 16 SARs in previous year. The Government should ensure prompt placement of SARs in the legislature.

(Chapter 1)

2 Performance audit relating to Government Companies

Performance Audit relating to **'**Power Generating Undertakings in West Bengal' and 'Operational performance' of West Bengal Forest Development Corporation Limited were conducted. Executive summary of audit findings of ***'Power generating undertakings in West Bengal'*** is given below:

Power is an essential requirement for all facets of life and has been recognised as a basic requirement. In West Bengal, the generation of power is managed by the West Bengal Power Development Corporation Limited (WBPDCL), Durgapur Projects Limited (DPL), Calcutta Electric Supply Corporation Limited (CESC), Dishergarh Power Supply Company Limited (DPSC) and West Bengal State Electricity Distribution Company Limited (WBSEDCL).

As on 31 March 2010, West Bengal had installed capacity of 10,476.53 MW. Out of this, 5,620.53 MW was in State sector PSUs (WBPDCL, DPL and WBSEDCL). The turnover of the State owned companies was ₹ 13,568.46 crore in 2009-10, which was equal to 62.60 *per cent* and 3.69 *per cent* of the State PSUs turnover and State Gross Domestic Product respectively. The State PSUs employed 31,015 employees as on 31 March 2010.

Capacity addition and project management

Net capacity addition (2,815.13 MW) during 2005-10 was less than the addition planned by the State (4,020 MW). The State was not in a position to meet the demand as the power generated as well as purchased fell short to the extent of 6,022.95 MUs to 10,499.29 MUs during 2005-10.

The 11 units implemented during the review period were not completed within scheduled time. Main slippage in time schedule were due to delayed finalisation and approval of drawings, delay in execution of work of main plant by the contractors and delay in supply of materials. Time overrun varied from seven to 84 months in commercial operation of projects, which led to cost overrun amounting to ₹ 3,035.42 crore over the estimated cost of DPR.

Contract management

During 2005-10, contracts valuing ₹ 10,825.61 crore were executed. Due to tardy progress of work, both WBPDCL and DPL had to forego subsidy of ₹ 84.26 crore and ₹ 4.47 crore respectively, under Accelerated Generation and Supply Programme (AG&SP) scheme. Further, at DPL all statutory clearances were obtained (September 2002) for a 250 MW plant, but notice inviting tender was issued in July 2004 for a 300 MW plant, which resulted in delay in execution of the project by 23 months besides rendering BHEL, technically unsuitable.

Operational performance

Performance of the existing generation stations depends on efficient use of material, manpower and capacity of the plants so as to generate maximum energy possible without affecting the long term operations of the plants. Our scrutiny of operational performance revealed the following:

Procurement of fuel

Short receipt of coal (19.54 *per cent*) at DPL (31.21 lakh MT) and WBPDCL (99.29 lakh MT) against the total linkage approved by Standard Linkages Committee during the four years upto 2008-09 led to shortfall in achievement of the generation targets by 3,115.28 MUs. Similarly, after fuel supply agreement (FSA) the Companies received less than the agreed quantity of coal in 2008-09. Short receipt of 64.56 lakh MT of coal (28.29 *per cent*) resulted in shortfall in achievement of generation target by 3,531.46 MU.

Consumption of fuel

Use of coal having less gross calorific value coupled with Station Heat Rate (SHR) above the West Bengal Electricity Regulatory Commission (WBERC) norms and leakages of steam in the ageing units of power plants caused excess consumption of coal to the tune of 84.94 lakh MT (₹ 1,384.47 crore) during 2005-10 in DPL and WBPDCL (BkTPP and KTPS).

Deployment of manpower

WBPDCL, DPL and WBSEDCL had 31,015 employees as on 31 March 2010. DPL incurred an extra expenditure of ₹ 32.82 crore in 2005-10 due to excess manpower in comparison to sanctioned strength. In WBSEDCL separate manpower allocation for generation activities was not done. At WBPDCL the manpower was within the norms prescribed by WBERC.

Shortfall in generation

Targets for generation of power for each year are fixed by the generation company and approved by the West Bengal State Electricity Regulatory Commission. It was observed that the State PSUs were able to generate a total of 1,00,706.99 MU of power during 2005-06 to 2009-10 against a target of 1,09,612.33 MU fixed resulted in net shortfall of 8,905.34 MU.

Plant load factor

PLF of WBPDCL remained less than national average PLF in all the years under review. PLF of DPL also could not reach national average level during 2005-10. The PLF of the two Companies ranged between 59.48 *per cent* to 67.84 *per cent* and 41.57 *per cent* to 61.94 *per cent* respectively against national average PLF of 73.71 *per cent* to 78.61 *per cent*.

Outages

The percentage of forced outages varied from 2.15 to 9.04 *per cent* and 3.55 to 10.96 *per cent* for BkTPP and KTPS respectively during 2005-10. At DPL, the percentage of forced outages remained in the range of 19.54 to 29.25 during that period. This indicated non-adherence to preventive maintenance schedules leading to increased incidence of breakdowns.

Auxiliary consumption

The generation of 729.31 MU at WBPDCL and DPL valuing ₹ 140.90 crore could not be dispatched to the grid as the actual auxiliary consumption of power stations ranged from 9 *per cent* to 12.47 *per cent* against WBERC norms of 9 to 10.50 *per cent*.

Renovation and modernisation

It was observed that the incomplete refurbishment as required under residual life assessment study at Unit VI of DPL led to generation loss of 604.83 MU valuing ₹ 152.81 crore. In respect of KTPS (WBPDCL), the work of R&M was stopped (September 2006) after incurring an expenditure of ₹ 56.42 crore. This resulted in generation loss of 363.51 MU valued at ₹ 61.08 crore.

Financial management

Dependence on borrowed funds (secured loans) increased at WBPDCL during review period as borrowing increased from ₹ 696.58 crore in 2005-06 to ₹ 3,539.52 crore (408 *per cent*) as at the end of 2009-10. This entailed interest burden of ₹ 588.01 crore during review period, ultimately increasing the operating cost of WBPDCL. Heavy capital expenditure coupled with interest commitment of loans without adequate returns due to delay in commercial operation of the plant caused significant increase in cost of operation.

Purulia pump storage project

PPSP (900 MW) was envisaged to meet the energy demand during peak hour period. During 2007-08 to 2009-10 it failed to bridge the peak hour shortage of 766.02 MW to 1,407.33 MW in the state due to operation of the plant from 41.77 *per cent* to 55.65 *per cent* only out of the possible hours. It consumed more power for pumping of water required for generation than power generated. It generated 1,930.80 MU against consumption of 2,472.12 MU during the period 2007-08 to 2009-10.

Environmental issues

Against the MOE&F norm for use of less than 34 *per cent* ash content coal, KTPS and BkTPP received 450.94 lakh MT coal with ash content between 28 to 39 *per cent*. DPL received 91.88 lakh MT of coal with ash content varying from 30 to 44 *per cent* during the review period. Failure to arrest water pollutant within prescribed norms under Water (Prevention and Control of Pollution) Cess Act, 1977 cost WBPDCL and DPL ₹ 1.19 crore and ₹ 77 lakh respectively as cess which was avoidable.

Conclusion and Recommendations

West Bengal State sector companies could not keep pace with growing demand of power in the State. The project management was ineffective as there were instances of time and cost overrun in all the projects implemented during 2005-10. Delay in completion also caused increase in interest cost during construction period. Operational performance of the plants was adversely affected due to short receipt as well as inferior quality of coal, low heat rate causing excess consumption of coal. Heavy capital expenditure coupled with interest commitment on loans caused significant increase in cost of operations. The top management did not take corrective measures to ensure adherence to norms/targets in respect of input efficiency parameters. The review contains seven recommendations which include effective planning and monitoring, ensuring consumption of coal within the prescribed norms, timely taking up of renovation and modernisation activities and ensure compliance to environmental laws, etc.

(Chapter 2.1)

Executive summary of audit findings of '***Operational performance***' of West Bengal Forest Development Corporation Limited is given below:

West Bengal Forest Development Corporation Limited (Company) was formed in July 1974 with the objective to purchase/acquire/obtain by lease, forest/ waste land/ other kind of land from the State Government for protecting and developing forests on a large scale, carry out forestry activities entrusted by State Government; market forest produce of its own and on behalf of Forest Department and develop awareness on conservation of nature. The Company acquired 0.44 lakh ha area in North Bengal from the Forest Department, representing 3.39 *per cent* of the total forest area of the State. The Company earned profit during the last five years upto March 2010 and accumulated profit stood at ₹ 40.44 crore against the paid-up capital of ₹ 6.23 crore. The performance audit of the Company for the period 2005-06 to 2009-10 was conducted to assess efficiency and economy in undertaking plantation activities, felling/harvesting operations as per working plans, achievement of project objectives, extent of benefit passed on to forest dwellers through participation of Forest Protection Committees (FPC) in forestry activities, effectiveness of pricing policy and marketing of forest produce, human resource management to obtain optimum productivity, adequacy of internal control mechanism to enable top management to monitor the affairs of the Company.

Planning

Forest (Conservation) Act 1980 required prior approval of the Central Government to working plans (WPs) covering all proposals for clearing forest areas and re-forestation. WP for Coochbehar, Baikunthapur, Buxa Tiger Reserve and Birbhum divisions expired in March 2010. The Company has taken up the issue with DoF.

Acquisition and utilisation of land

The State Government did not frame a policy in respect of transfer of forest land to the Company. The Company obtained leasehold right over a meagre area of 44,049 ha out of 12.99 lakh ha of forest area of the State. The leasehold forest land includes 1,415.78 ha of degraded forest land. Further, 33,984 ha was situated at an altitude above 500 metre where felling was not permissible. Further, no lease agreement was entered into for 73,000 ha under CJFM project in South Bengal.

Plantation activities

Plantation activities were not carried out as prescribed in working plans. As a result there was shortfall of 74 *per cent* in Sal plantation and insufficient afforestation coverage in degraded forest land under South Bengal project. Although the project envisaged higher production of pulpwood through clonal Eucalyptus plantations, only 16 *per cent* of total afforested area was covered by such plantation which affected overall productivity.

Harvesting activities

Harvesting entails obtaining yield from thinning and final felling of trees in clear felling areas. The Company could not harvest 42,889.85 ha of targeted area due to low stock, non- existent plantation and inadequate monitoring. Against the norm of 200 trees per ha in CFC area, the actual average number of standing trees was 67 in Kalimpong division of the Company and 95 in five divisions of DoF where the Company was entrusted to carry out CFC under ID&JFM project. No investigation was carried out for loss of timber valued ₹ 97.43 crore. Further, due to low productivity per hectare the Company suffered revenue loss of ₹ 14.81 crore during 2005-10. Wide variances in earnings of FPCs in neighboring divisions gave rise to apprehension of forest stock not being adequately protected, since earnings of FPCs were directly proportionate to the outturn of the blocks.

Sale of forest produce

Although auction prices obtained were sub-optimal, the Company could not dispose logs through open tender due to failure to overcome the opposition of local timber merchants association. Instead of following the method of open tendering, 77 *per cent* of pulpwood was allotted to two paper manufacturers at negotiated rates below market price, which led to lower realisation of ₹ 2.68 crore in 2007-09. During 2005-09 realisation against cashew sale was ₹ 1.50 crore against potential revenue of ₹ 3.12 crore due to failure to break cartel formation by buyers.

Financial management

The Company consistently earned profit of ₹ 35.73 crore during 2005-10 entirely generated from two JFM projects. Further, cash management technique was found to be deficient since the Company failed to forecast optimum fund required for day to day operations beyond which the surplus could be invested in short term deposits resulting in loss of interest of ₹ 1.02 crore. Besides the Company did not receive compensation of ₹ 21.04 crore towards compensatory afforestation and value of standing trees due to diversion of forest land to NHPC for construction of hydel project as well as failed to collect royalty of ₹ 2.21 crore on boulders collected by them. Moreover, due to incorrect computation of cost, the Company paid excess royalty of ₹ 29.88 crore to the Government on sale proceeds of forest produce.

Manpower planning

The Company did not review division-wise optimum manpower required according to present activity level. In March 2010, the Company sent a proposal to DoF for reorganisation of Kalimpong division by surrendering 33,984 ha of lease hold land due to restriction in felling operation above 500 metre imposed by Supreme Court and transferring 303 employees to the DoF after retaining 118 employees. However, the proposal has not yet been accepted by the DoF and the Company continued to absorb the extra expenditure of ₹ 3.12 crore on surplus staff upto September 2010. Further, the Company incurred unproductive cost of ₹ 50.04 lakh towards idle manpower.

Internal control

Absence of mechanism to monitor plantations at various stages led to losses of forest stock. Beside control mechanism in the area of preparation of working plans, deployment of surplus staff, reconciliation of advance and non-recovery of outstanding dues, selling procedures of timber/ pulpwood are found to be deficient. Further, internal audit did not cover important areas like plantation and harvesting.

Conclusion and Recommendations

The Company could not adhere to the norms of plantation and harvesting activities resulting in less regeneration thereby affecting forest cover and degradation of forest land as well as lower productivity due to illicit felling arising from inadequate monitoring. Moreover, the Company deviated from its own sales policy, failed to break the clutch of buyers' cartel by exploring alternate marketing avenues leading to lower sales realisation. The Company should lay greater emphasis on sticking to operational norms, streamlining marketing activities by widening customer base, adopting more transparent methods and exploring the possibility of venturing into the business of non-timber forest produce and value added products.

(Chapter 2.2)

3 Transaction audit observations

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature:

- Loss of ₹ 115.67 crore due to inadequate/deficient monitoring in two cases.

  (*Paragraphs 3.1 and 3.2*)

- Non-safeguarding of financial interests of organisation in eight cases involving ₹ 95.99 crore.

  (*Paragraphs 3.4, 3.9, 3.10, 3.13, 3.14, 3.17, 3.19 and 3.20*)

- Lack of fairness, transparency and competitiveness observed in one case involving ₹ 26.38 crore.

  (*Paragraph 3.3*)

- Non realisation of objectives in one case involving ₹ 14.90 crore.

  (*Paragraph 3.16*)

- Non-compliance with rules / directives / procedures in six cases involving ₹ 13.97 crore.

  (*Paragraphs 3.5, 3.6, 3.8, 3.11, 3.15 and 3.18*)

- Defective/deficient planning in two cases involving ₹ 6.90 crore.

  (Paragraphs 3.7 and 3.12)

Gist of some of the important audit observations is given below:

West Bengal State Electricity Distribution Company Limited lost revenue of ₹ 95.32 crore on account of loss of saleable energy due to poor project implementation, under recovery of supervision charges and inadequate system control on consumer billing. It also incurred extra expenditure of ₹ 57.11 crore due to payment of avoidable interest on delayed deposit of electricity duty and procurement of consumables/equipments at higher rates.

(Paragraphs 3.1, 3.2, 3.3, 3.4, 3.5 and 3.6)

West Bengal Infrastructure Development Finance Corporation Limited paid avoidable interest of ₹ 74.71 crore arising from short payment of advance tax for its inability to assess income due to delayed finalisation of accounts. It also incurred loss of ₹ 4.18 crore due to imprudent investment in mutual fund.

(Paragraphs 3.9 and 3.10)

In construction of one bridge **Sundarban Infrastructure Development Corporation Limited** extended undue favour of ₹ 2.74 crore to a contractor by accepting higher item rates, inadmissible measurements, redundant and sub-standard works and incurred extra expenditure of ₹ 99.79 lakh in construction of a rural road by overlooking the specifications of Rural Road Manual.

(Paragraphs 3.11 and 3.12)

West Bengal Industrial Development Corporation Limited suffered loss of ₹ 2.51 crore due to improper fixing of selling price of plots.

(Paragraph 3.14)