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 2011, the State of West Bengal had 72 working PSUs (63 companies and 9 Statutory corporations) and 18 non-working PSUs (17 companies and one corporation), which employed 0.68 lakh employees. The working PSUs registered a turnover of ₹ 23,319.08 crore for 2010-11 as per their latest finalised accounts. This turnover was equal to 5.07 *per cent* of State GDP indicating an important role played by State PSUs in the economy.

Investments in PSUs

As on 31 March 2011, the Investment (Capital and Long Term Loans) in 90 PSUs was ₹ 39,535.91 crore. It grew by over 15.83 *per cent* from ₹ 34,131.73 crore in 2005-06. Power and finance sectors accounted for nearly 80.88 *per cent* of total Investment in 2010-11. The Government contributed ₹ 982.83 crore towards Equity, Loans and Grants/Subsidies during 2010-11.

Performance of PSUs

During the year 2010-11, out of 72 working PSUs, 30 PSUs earned Profit of ₹ 550.58 crore and 40 PSUs incurred Loss of ₹ 812.38 crore while one PSU prepared accounts on 'no Profit no Loss' basis, while one PSU had not finalised their first accounts. The major contributors to profit were West Bengal State Electricity Transmission Company Limited (₹ 174.49 crore), Haldia Petrochemicals Limited (₹ 134.64 crore), West Bengal State Electricity Distribution Company Limited (₹ 95.13 crore) and West Bengal Power Development Corporation Limited (₹ 65.40 crore). Heavy Losses were incurred by The Calcutta Tramways Company (1978) Limited (₹ 208.25 crore), The Durgapur Projects Limited (₹ 183.50 crore), Calcutta State Transport Corporation (₹ 46.98 crore) and West Bengal Surface Transport Corporation Limited (₹ 47.47 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 ₹ 6072.96 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 69 accounts finalised during October 2010 to September 2011, 51 accounts received qualified certificates. Further, Statutory Auditors and CAG had commented on 42 accounts with total impact of comments of ₹ 437.08 crore on their reported profitability. During the year there were 97 instances of non-compliance with Accounting Standards in 40 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 2010-11 upto September 2011. The accounts of remaining 41 PSUs were in arrears for periods ranging from one to seven years. There were 18 non-working PSUs of which one had finalised their accounts for the year 2010-11 while 17 PSUs had arrears of accounts for one to seven years. As no purpose is served by keeping these PSUs in existence, they need to be wound up quickly.

Placement of SARs

There was delay in placement of SARs in State Legislature by seven to 15 months in respect of 10 SARs. The Government should ensure prompt placement of SARs in the Legislature.

(Chapter 1)

2 Performance audit relating to Government Companies

Performance Audit relating to 'Performance of power distribution utility in West Bengal' in respect of West Bengal State Electricity Distribution Company Limited and 'Post restructuring performance and implementation of modernisation scheme' by Durgapur Chemicals Limited were conducted. Executive summary of audit findings of ***'Performance of power distribution utility in West Bengal'*** is given below:

Electricity is an essential requirement for all facets of our life and critical infrastructure for country's socio-economic development. Supply of electricity at reasonable rate to all the sectors is very crucial for sustained economic development. In West Bengal, electricity distribution is undertaken by five agencies i.e. West Bengal State Electricity Distribution Company Limited (Company) and The Durgapur Projects Limited (DPL) in the State sector, Damodar Valley Corporation (DVC) in the concurrent sector and CESC Limited and DPSC Limited in the private sector.

As on 31 March 2011, the State had distribution network of two lakh CKM, 549 sub-stations and 7,600.33 MVA distribution transformers (DTR) of various categories. There were 105.72 lakh consumers as of March 2011. The turnover of the State distribution companies was ₹ 17,084.67 crore in 2010-11, which represents 3.71 *per cent* of State Gross Domestic Product. These companies employed 31,430 employees as on 31 March 2011.

Distribution network planning

The increase in Company's distribution capacity did not match the pace of growth in consumer demand since connected load grew at 48 *per cent* while transformer capacity increased at 27 *per cent* during 2006-11. The gap of transformation capacity to total connected load ranged between 0.63 and 0.82 resulting in frequent tripping and adverse voltage regulation with consequential higher quantum of energy losses.

Implementation of Centrally sponsored schemes

Under RGGVY, 3,665 villages were electrified out of 4,283 villages taken up, while only 12.75 lakh out of 26 lakh BPL households were provided electric connection during 2006-11. The Company incurred extra expenditure of ₹ 102.08 crore in execution of works due to placement of orders at higher rates compared to approved estimate, inclusion of price variation clause instead of fixed cost envisaged in the scheme and double payment on earthing materials. Besides, Company had to forgo administrative charges of ₹ 66.08 crore as estimates exceeded sanction limits.

Implementation of Restructured Accelerated Power Development Reforms Programme (RAPDRP), intended to strengthen Distribution Management System and upgradation of sub-transmission & distribution network, fell short of target and the Company utilised 24 *per cent* of the funds released due to delay in completing loan formalities and slow progress of work.

Operational efficiency

The power purchases from State and Central PSUs were not adequate to fulfill the demand in the State and shortfall was met through purchases from IPPs and other sources at higher rates ranging from ₹ 2.49 per unit to ₹ 4.30 per unit. The energy losses of 3,396 MUs valuing ₹ 1,311.47 crore were in excess of norms approved by WBERC. The main reasons for such losses were inadequate transformation capacity, high interruption, non rationalisation of feeders, low power factor, low feeder availability, theft of electricity, etc. The Company delayed in rationalising feeders that led to non reduction of line loss of 865.24 MUs valued ₹ 269.96 crore. Further, there was significant shortfall in addition of capacitor banks which led to loss of targeted energy saving of 73.60 MUs valued at ₹ 22.96 crore. The percentage of consumers checked was negligible in all the years and the unrealised amounts were on the rise.

Financial management

The Company's Accumulated Losses decreased by 45 *per cent* between 2007-08 to 2010-11 as they had earned profit of ₹ 305.25 crore. In this period, Annual Revenue Requirement petitions were filed on time. However, the percentage of deficit in recovery of fixed cost varied from 8 to 38 *per cent* during 2007-11. Besides, as of March 2011, the Company had retained Regulatory Assets aggregating to ₹ 3,320.05 crore. Agriculture was heavily subsidised with only 31 to 50 *per cent* of cost of supply being recovered. Commercial consumers bore this burden.

Billing efficiency

Energy billed during 2007-11 rose from 73.47 to 79.80 *per cent* of the total energy available for sale. This increase was due to installation of electronic meters which led to accurate billing. Average billing declined from 4.42 *per cent* to 1.13 *per cent* during this period due to decline in consumers with defective meters.

Wrong classification of commercial units as industrial units led to loss of revenue of ₹ 1.20 crore to the Company. In 15 divisions during 2008-09 to 2010-11, 21.63 lakh bills against 5.67 lakh L&MV consumers were short of minimum charges. Besides, average bills for 86,057 consumers with defective meters could not be raised since previous meter readings were not recorded.

Revenue collection efficiency

The outstanding dues from consumers decreased from ₹ 1,234.81 crore in 2006-07 to ₹ 1,047.80 crore in 2010-11. Of the above, dues of ₹ 585.51 crore from 15 divisions indicated that dues outstanding for more than three years amounted to ₹ 136.37 crore (23.29 *per cent*) while an amount of ₹ 85.20 crore (14.55 *per cent*) was due from disconnected consumers. Further, arrears of more than rupees one lakh was due from 3,834 L&MV consumers in 15 divisions and 3,029 HT and EHT consumers of the Company, for three to 318 months but their supply was not disconnected resulting in accumulation of arrears of ₹ 236.13 crore (March 2011).

The Company had temporarily disconnected supply of power to 79 L&MV consumers in 15 divisions and 449 HT and EHT consumers of the Company, having arrear of more than rupees one lakh for four to 189 months but were not permanently disconnected. This resulted in non-realisation of arrears amounting to ₹ 22.05 crore (March 2011). In addition, cheques of ₹ 3.12 crore had not been credited by the concerned banks in six divisions but the Company could not identify the consumers.

Consumer satisfaction

The Company created (January 2009) Customer Relation Management (CRM) Cell to look into the grievances of consumers and their redressal. The Company paid ₹ 3.26 crore as compensation to the consumers for non-compliance of WBERC Regulations.

Energy Conservation

The Company is State Designated Agency (SDA) under the Energy Conservation Act, 2001 (Act). BEE had disbursed (January 2008 to April 2011) ₹ 1.95 crore to the Company for energy conservation. The Act stipulates that the State Government was to constitute Energy Conservation Fund for promotion of efficient use of energy and its conservation. The State Government belatedly (September 2010) notified creation of West Bengal Conservation Fund. They were yet to contribute their share to the fund.

Energy accounting and audit

The Company placed (October 2006/ April 2007) orders on Secure Meters Limited (SML) for erection of 15,230 energy accounting meters at an extra expenditure of ₹ 2.43 crore towards higher erection charges and payment of service tax included in the rates. Further, the Company incurred extra expenditure of ₹ 10.15 crore by allowing maintenance charges on these meters though the purchase orders provided for maintenance of these meters free of cost for five years.

Due to erroneous stock accounting, the Company procured 4.42 lakh meters worth ₹ 40.58 crore in excess of requirement. Besides, we could not vouchsafe existence of 1.40 lakh meters valued ₹ 13.17 crore.

Conclusion and Recommendations

The Company did not prepare target for annual capacity development of sub-stations over the review period. The increase in distribution capacity did not match the pace of growth in consumer demand. They incurred extra expenditure on execution of rural electrification work on placement of orders at higher rates. High energy losses were due to low feeder availability, high interruption, voltage fluctuation, inadequate number of shunt capacitors and low power factor. The Company lost opportunity to earn higher revenue due to incorrect application of tariff, under assessment of revenue and short levy of minimum charges. The review contains six recommendations which include creation of infrastructural facilities keeping in view demand growth, reduction of high energy losses by installing adequate number of shunt capacitors, minimising interruptions and voltage fluctuations. Achieving 100 *per cent* energy billing, applying correct tariffs and levying minimum applicable consumer charges as well as optimising internal resource generation by improving billing and collection efficiency and vigorously pursuing outstanding dues.

(Chapter 2.1)

Executive summary of audit findings of ***'Post restructuring performance and implementation of modernisation scheme'*** by Durgapur Chemicals Limited is given below:

Durgapur Chemicals Limited (Company) was incorporated in July 1963 with the object of manufacturing phenol, phthalic anhydride (both since discontinued), caustic soda, chlorine and hydrogen with mono-chlorobenzene (MCB), mixed dichloro benzene (DCB), sodium penta chlorophenate (SPCP), stable bleaching powder (SBP) and synthetic hydrochloric acid (syn-HCL) as the primary downstream chlorinated products by use of salt, benzene, hydrated lime and phenol as main raw materials. The Company played a marginal role in caustic chlorine industry (seven *per cent* production) of eastern India.

In order to turn around the Company from incurring continuous losses due to obsolete plant and technology, higher cost and increasing dependence on budgetary support to meet operational deficit, the State Government undertook a financial cum operational restructuring and business optimisation during February 2004 to July 2010. The performance audit covered the period from 2006-07 to 2010-11 to assess the post restructuring performance of the Company.

Financial management

As a result of financial restructuring the Paid up Capital reduced from ₹ 406.01 crore to ₹ 57.28 crore as on March 2011. For implementation of modernisation of projects the borrowings of the Company increased from ₹ 6.29 crore to ₹ 62.60 crore during 2006-11 registering a growth of 895 *per cent*. The Company failed to mobilise adequate working capital due to their inability to generate own resources. The Company could not recover their cost of operation as cost growth outstripped the growth of sales realisation during 2007-11. The poor financial health of the Company was attributable to high cost of raw materials, power, utility and lack of flexibility of product mix that could fetch higher margins.

Financial, Administrative and Business restructuring

Under capital restructuring State Government Loan and Interest of ₹ 369.92 crore was first converted into Equity and then Paid up Capital was reduced to ₹ 57.28 crore as of March 2011, by setting off the Accumulated Loss of ₹ 351.93 crore.

Though the Company reduced their manpower by implementing Early Retirement Scheme they failed to restrict their employee cost to industry benchmark due to non implementation of variable pay structure and thereby incurred extra expenditure of ₹ 26.06 crore during 2006-11.

Delay in implementation of modernisation project led to time overrun of 21 months and cost overrun of ₹ 35.77 crore. Deviation from DPR during implementation caused mismatch in capacities of different up and down stream plants and also created shortage of working capital. Lack of proper planning and injudicious decision making with respect to various functional activities of the plants led to reduced production and high costs affecting profitability of the Company.

Production performance

Capacity utilisation of caustic chlorine plant was 71 *per cent* and that of MCB, DCB and SBP plants were 34, 22 and 45 *per cent* during 2006-11. The production loss due to non achievement of targets was 70,044 MT valued at ₹ 160.12 crore with contribution loss of ₹ 20.74 crore. Poor production performance was attributed to delay/ non-completion of plant modernisation, inadequate provision to utilise byproducts, shortage of storage capacity and working capital. The Company did not follow industry norms fixed in DPR for consumption of salt and chemicals resulting in excess consumption of 22,992 MT of salt, benzene, caustic soda and other chemicals over norms and thereby incurred avoidable expenditure of ₹ 14.95 crore during 2006-11.

Procurement of salt

The Company procured primary raw material, (salt) largely from a single vendor during 2006-11 at 16 to 75 *per cent* higher prices than their competitors. Besides, due to poor procurement mechanism, the Company could not ensure capacity utilisation of the plant and ran the risk of zero stock. Purchase through traders instead of direct purchase from manufacturers cost the Company avoidable expenditure of ₹ 5.10 crore during 2006-10.

Energy management

Though DPR recommended for captive power plant for cheap source of power, the Company did not visualise importance of power cost sensitivity to project profitability. Power cost ranged between ₹ 2.90 to ₹ 4.01 per unit during 2008-11 as against the envisaged cost in DPR of ₹ 2.25 to ₹ 3 and competitors' cost at ₹ 2.05 to ₹ 2.20 per unit. Besides, the Company consumed excess energy valued at ₹ 9.69 crore over the norms during 2006-11, affecting their profitability further. They incurred extra expenditure of ₹ 7.48 crore on steam generation due to use of costly furnace oil instead of cheaper coal.

Sales performance

Despite high level of acceptability of the Company's products in the market, sales targets were not met due to inefficiency and bottlenecks in production. Due to faulty agreement with a contractor, forward sale contract with a buyer and lower realisation from sales through agents, the Company incurred loss of revenue of ₹ 4.90 crore. Further, injudicious decision to appoint commissioning agents before commencement of enhanced production resulted in unfruitful expenditure of ₹ 43.23 lakh.

Internal control

Weak internal control and monitoring mechanism resulted in acceptance of substandard quality of salt, lack of preventive maintenance of the plants leading to excess down time and resultant loss of production, lack of vigorous pursuance of debtors resulting in bad debts and salt being issued without recording the quantity of salt. Further, internal audit was not effective because neither the management took corrective actions on shortcomings noticed in internal audit nor did the BoD seek action taken note thereagainst.

Conclusion and Recommendations

Restructuring plans were implemented partially and belatedly, affecting production performance and profitability and thereby frustrating the objectives of revival of the Company and breaking free from dependence on the budgetary support of the State Government. Besides, lack of focused sales, faulty agreements and failure to utilise own marketing setup resulted in lower sales realisation. The Company should explore inexpensive and steady sources of power, rejig their debt structure, adhere to operational norms, procure raw materials directly from source, introduce new value added products, increase sale of downstream products, streamline marketing activities by widening customer base and strengthen control mechanism in all operational areas.

(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 ₹ 447.43 crore due to inadequate/deficient monitoring in three cases.

(*Paragraphs 3.1, 3.4 and 3.13*)

- Non-safeguarding of financial interests of organisation in six cases involving ₹ 24.30 crore.

(*Paragraphs 3.2, 3.3, 3.6, 3.7, 3.8 and 3.12*)

- Non realisation of objectives in one case involving ₹ 7.33 crore.

(*Paragraph 3.14)*

- Non-compliance with rules / directives / procedures in two cases involving ₹ 6 crore.

(*Paragraphs 3.5 and 3.11*)

- Defective/deficient planning in two cases involving ₹ 5.52 crore.

(Paragraphs 3.9 and 3.10)

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

The Durgapur Projects Limited had lost revenue of ₹ 393.77 crore on annual fixed charges and incurred extra expenditure of ₹ 29.61 crore on repair of rotor, procurement of energy meters at higher rate and for not availing discount on oil price.

(Paragraphs 3.1, 3.2 and 3.3)

West Bengal Power Development Corporation Limited incurred avoidable expenditure of ₹ 11.28 crore on excise duty, repair of ESP and interest on advance tax. They also lost revenue of ₹ 30.22 crore due to under recovery of fixed charges.

(Paragraphs 3.4, 3.5 and 3.6)

The Shalimar Works (1980) Limited suffered loss of ₹ 5.17 crore due to defective estimates on construction of fuel barges.

(Paragraph 3.7)

West Bengal Electronics Industry Development Corporation Limited failed to devise a suitable mechanism to control sub-letting of spaces by their lessees and enhance rate of permission fee for sub-letting resulting in loss of additional income of ₹ 3.77 crore.

(Paragraph 3.8)