

## Chapter III

### 3 Compliance Audit

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

#### Government Companies

#### WEST BENGAL FOREST DEVELOPMENT CORPORATION LIMITED

##### 3.1 *Information Technology Audit of Online reservation system of nature resorts*

#### Introduction

**3.1.1** West Bengal Forest Development Corporation Limited (WBFDCCL) operates a website for online booking of nature resorts. WBFDCCL had outsourced (November 2011) development, operation and maintenance of its website ([www.wbfdc.com](http://www.wbfdc.com)) including online reservation to M/s Web Wonderz, Kolkata (WWZ). The website is hosted in virtual private servers (VPS) of another third party entity. The website contains information on WBFDCCL's business and room availability in its nature resorts and another linked site, [www.wbfdc.net](http://www.wbfdc.net), has online booking facility. The online reservation system with a payment gateway has commenced from July 2013.

#### IT Governance

**3.1.2.1** With view to maintain effective supervision over information technology (IT) assets, WBFDCCL needed to document requirement for IT assets, organisation structure, policies for management of IT *etc.* as detailed in **Annexure 3.1**. WBFDCCL however had not defined their IT organisational structure, IT strategy, operational responsibility, reporting structure or documented IT policy and detailed project management structure for IT systems under development.

##### *Information security policy*

**3.1.2.2** To ensure confidentiality, integrity and availability of business data, an information security policy is a pre-requisite. Audit observed that WBFDCCL did not have an information security policy. In absence of any documented policy or assigned organisational role to ensure security of the IT assets, the following deficiencies were noticed in audit :-

- Ownership of the IT assets was not defined, competency based roles and responsibility for IT assets within the organisation was not assigned;
- Proper documentation (**Annexure 3.1**) that could provide insight into their existing IT system was not ensured;
- Role based physical or logical access and authentication to information systems was absent;
- Business continuity plan did not exist;
- Role of third party service providers was not defined; and
- A privacy policy to secure information shared by their customers was absent.

Management in its reply (January 2015) stated that they were in the process of entering into an enforceable contract with WWZ.

#### ***Third party service delivery management***

**3.1.2.3** Wbfdcl is dependent on third party service providers for management of their IT assets. Specific clauses regarding levels of information security and quality of service delivery and compliance with Government directives should have been incorporated in the agreement.

Wbfdcl had initially appointed (November 2011) WWZ to maintain its website. However, no contract was signed with WWZ. In July 2013, WWZ was asked to develop online reservation and host the same from VPS. Once again no contracts were executed by Wbfdcl either with WWZ or with VPS service provider.

Since Wbfdcl had not executed a contract, it could not enforce the requirement of government guidelines (**Annexure 3.2**) applicable to hosting and securing a government website. Moreover, in absence of contract, it was not ascertainable if ownership of source codes, databases and all information (including private information shared by the customers<sup>1</sup>) belonged to Wbfdcl or that Wbfdcl was merely a service user.

Also, procedure for smooth and complete migration from the current vendor to any subsequent vendor or web hosting service provider is not defined. Further business continuity plans remain uncertain as Wbfdcl had not ensured services of source code escrow<sup>2</sup> to ensure maintenance of the software.

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<sup>1</sup>Customers share their personal information such as name, address, phone number, e-mail id etc.

<sup>2</sup>Source code escrow is the deposit of the source code of software with a third party escrow agent. Escrow is typically requested by a party licensing software (the licensee), to ensure maintenance of the software. The software source code is released to the licensee if the licensor files for bankruptcy or otherwise fails to maintain and update the software as promised in the software license agreement.

Management in its reply stated (January 2015) that data, database and other intellectual property rights remained with Wbfdcl and added that they were in the process of entering into an enforceable contract with WWZ.

However, Management's reply is not tenable in absence of an agreement to that effect.

Additionally, Wbfdcl's website **www.wbfdc.com** is hosted by WWZ from British Virgin Islands which also hosts its official mail server. This is in contravention of section 4 of The Public Records Act, 1993 which prohibits sending public records out of India.

Management in its reply stated (January 2015) that they have shifted the server of **www.wbfdc.com** to India. But Audit observed that as of January 2015, the server remains out of India.

### System availability for online reservations

#### *Incorrect accounting of Service Tax*

**3.1.3.1** Wbfdcl collects service tax from customers at the time of reservation but due to lack of appropriate processing it is unable to refund the service tax amount to those customers who subsequently cancel their reservation. As a result, it had retained ₹ 1.99 lakh since April 2013 being proportionate service tax.

Management in its reply agreed (January 2015) with audit observation and stated that corrective action would be taken.

#### *Multitude of organisations*

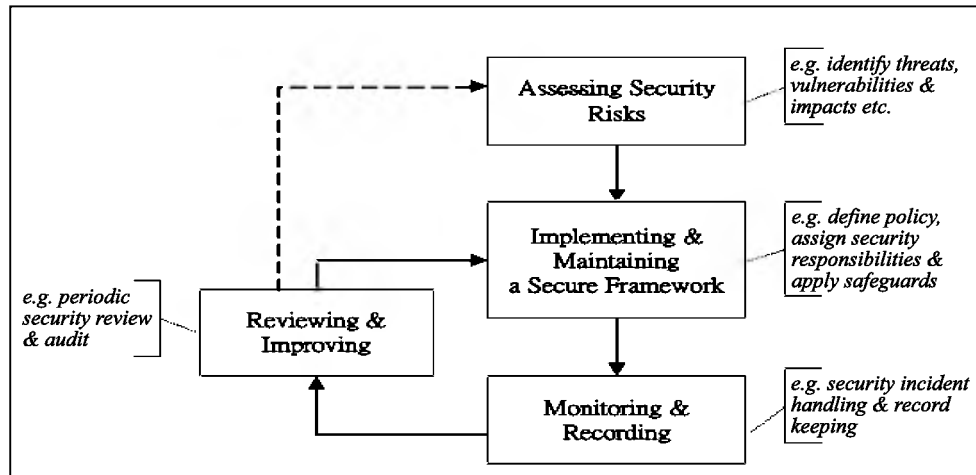
**3.1.3.2** State Government and its different agencies<sup>3</sup> operate resorts and lodges at various tourist destinations. An integrated approach would have resulted in one website through which information on availability of all these lodges/resorts could have been found and their reservation made. Accordingly, revenue could have been shared between different agencies through an appropriate application at the back end. Similarly, interoperability would encourage any mode of e-payment. Test check revealed that the Bank of Baroda payment gateway for Wbfdcl while accepting debit and credit card had no facility for payment through net-banking. Scrutiny revealed that the contract between Bank of Baroda with Wbfdcl did not have provision for receiving payment through net-banking.

<sup>3</sup>West Bengal Tourism Development Corporation Limited, Gorkha Territorial Administration, Haldia Development Authority, Forest Directorate etc.

## Security Management

3.1.4.1 Information security management can be described as a cycle of iterative<sup>4</sup> and ongoing processes. It involves a series of activities, examples of which are illustrated below:

**Chart 3.1: Information Security Management**



Wbfdcl had not undertaken any risk assessment of their IT assets, nor have they created a framework within which risks or security breach incidents could be addressed. Some security incidences noticed by audit are mentioned below:

### **Physical security**

3.1.4.2 Security of IT assets includes physical and environmental security of the locations where these assets are placed. Although State Data Centre (SDC) was created (March 2011) by the Government of West Bengal to provide a secure and safe physical and environment security for web hosting, Wbfdcl had not hosted their servers from SDC. Wbfdcl's websites are hosted in VPS that were hired by WWZ. In absence of a contract with WWZ, Wbfdcl could not obtain assurances on physical and environmental security of the servers from which its website was hosted.

Wbfdcl did not have a policy or standard operating procedure for transportation and disposal of IT assets which may continue to hold vital data.

Management in its reply assured (January 2015) to take necessary action once the current agreement expired.

### **Monitoring**

3.1.4.3 Audit trail logs record access, activities and exceptions in a system/process/application, in chronological order. It helps auditor in reconstruction of the environment or activities including security incidences.

<sup>4</sup> Iteration is the act of repeating a process with the aim of approaching a desired goal, target or result.

Maintenance of Audit trail logs were directed by the Government in January 2011. However, Wbfdcl did not contractually enforce maintaining of log files for audit. WWZ informed (February 2014) Audit that since Wbfdcl's website was hosted in VPS, it was not possible to maintain such log files.

Management in its reply agreed (January 2015) to take corrective action.

### ***Security Audits***

**3.1.4.4** The State Government had directed (January 2011) security audit by CERT-IN<sup>5</sup>/STQC<sup>6</sup> empanelled auditors to assess vulnerabilities of the IT system of all government entities. Wbfdcl had not provided for any arrangement for security audit of its website and online reservation system built and maintained by WWZ.

Management in its reply assured (January 2015) compliance.

### ***Media Handling and Data Privacy***

**3.1.4.5** Audit observed that Wbfdcl did not have any policy to address media (pen drive, HDD, external drive *etc.*) handling by its staff or the third party service providers.

Management in its reply stated (January 2015) that third-party pen drive, HDD and external drive are not allowed. However, Audit observed no documented policy was in vogue on this matter.

### ***Operational Procedure and responsibilities***

**3.1.4.6** A documented standard operating procedure (SOP) is required for information processing. SOP should provide for segregation of duties and change management. Wbfdcl had no documented SOP. It had outsourced all IT activities to a third party. In absence of a contract with WWZ, it could not ensure that documentation was maintained for changes in IT systems.

Management in its reply stated (January 2015) that corrective actions would be taken.

## **Access controls**

**3.1.5.1** Access to Information System is twofold. The first is physical access where an individual could come in physical contact with the IT assets. The other is logical access for instance by use of passwords, user-ids by which an individual gains access to the application of that IT asset.

<sup>5</sup> Computer Emergency Response Team-India.

<sup>6</sup> Standardisation testing and Quality Certification Directorate, Government of India.

### ***Physical Access controls***

**3.1.5.2** Since Wbfdcl has outsourced its IT functions and its website is hosted from VPS, Audit could not verify whether physical access to such servers and IT assets are secured. Wbfdcl had not contractually enforced WWZ to obtain and share with Wbfdcl information regarding adequacy of physical access controls at their third party's site where Wbfdcl's IT assets are ultimately housed.

Management in its reply stated (January 2015) that dedicated server would be deployed to enhance security.

However, Wbfdcl also needs to have a policy and create contractual obligation to enforce the same.

### ***Logical Access controls***

**3.1.5.3** At Wbfdcl, WWZ was the Database Administrator (DBA) and could create user ID and assign role to the users. Wbfdcl had two classes of users :-

- ❖ Internal users who could provide over the counter reservation to guests and collect payment and generate daily management information system (MIS). The agents of Wbfdcl also had similar privilege except for ability to generate MIS.
- ❖ The citizens could create their own user ID and password online and the use that user ID and password to make reservation through Wbfdcl's website.

**3.1.5.4** The following features expected of a robust access authorisation to Wbfdcl's system were not implemented:

- Passwords should enforce a combination of alpha-numeric-special characters with at least one capital alphabetical character.
- Restrict failed log-in attempts to maximum of three after which the user-ID is blocked out.
- Upon log-in, the user would get message about his/her last log-in attempt including last failed attempt.
- Use CAPTCHA<sup>7</sup> to prevent log-in other than by humans.
- Compulsory change of password after first log-in so that password assigned by DBA is changed and subsequently at regular intervals.
- Wbfdcl's booking application did not prevent multiple log-in with same user-ID from different terminals over the internet.
- IP address of log-in should be recorded.

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<sup>7</sup> A CAPTCHA (an acronym for "Completely Automated Public Turing test to tell Computers and Humans Apart") is a type of challenge-response test used in computing to determine whether or not the user is human.

Management in its reply (January 2015) stated that restriction on log in attempts would delay reservation, however CAPTCHA would be implemented. Further, Management also said that except for online users, all passwords are created by super-admin and therefore cannot be changed. However, for officers of Wbfdcl, the passwords are changed every three months. Further, multiple log-in with same user-ID over different terminal is not possible and shortly IP address of log-in would be recorded.

The reply is not convincing due to the fact that Audit observed (March 2014) that there were no restriction on multiple log-in with same user-ID over different terminals. Besides, restricting multiple failed log-in would enhance system security.

### *Failure to manage access risk*

**3.1.5.5** Since staff users of Wbfdcl could provide reservations to nature resorts and lodges without prior payment through the website, their ability to access the reservation system should have been restricted to the office hours only. This would ensure that the staff users remain accountable for their reservations and duly deposit the money collected. However, in Wbfdcl's online reservation system, there was no access time restriction mechanism to ensure that specific user with defined role has access to the system only during the time ordinarily expected of him/her to work in the system e.g. reservation officers at booking office can access only during office hours and on working days. On Wbfdcl's system the staff users can continue to access over the internet beyond working hours.

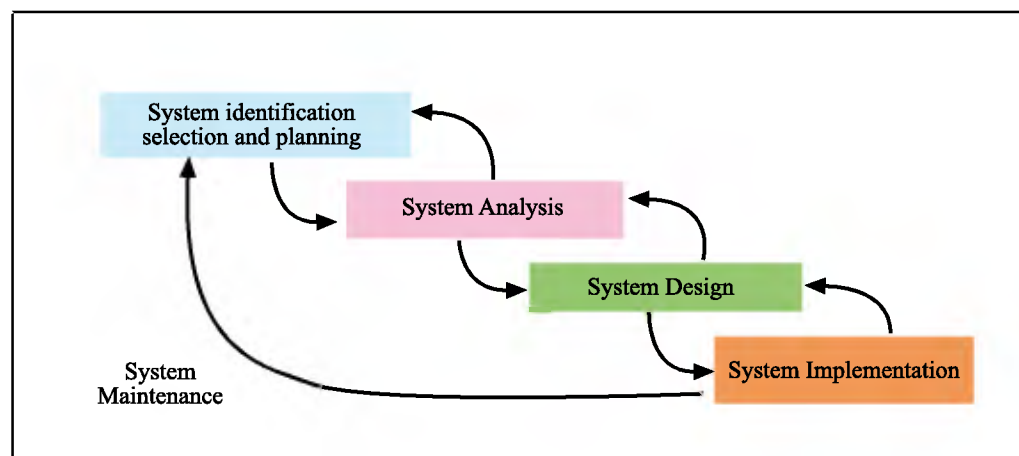
Management in its reply stated (January 2015) that they have a mechanism of restricting access. But during audit such restrictions were not found.

## Information technology acquisition, development and maintenance

### *IT acquisition and development*

**3.1.6.1** Acquisition of IT assets has the following steps: system identification, selection and planning, system analysis, system design and finally system implementation as could be seen from the chart below:

**Chart 3.2 : Information systems acquisition/ development**



It also requires an organisation structure to be put in place defining the roles and responsibility of project sponsor, a project management team, a steering committee and a designated owner of the completed assets. These would ensure that a project has a defined objective; there are officials who are responsible for its success and finally the ownership of the asset. It would also create a framework for preparation of necessary documentation from feasibility study to project signing off and then its appropriate use, maintenance and necessary modifications. Wbfdcl had no such system in place.

Management in its reply agreed (January 2015) with the audit observation and promised to implement these steps.

#### ***Documentation for new system***

**3.1.6.2** Creation of certain documents such as user specification, software specification would precede development of the website. Documentations relating to system development, configuration, network architecture, database structure and logic flow diagrams *etc.* would be simultaneous to system development along with test reports. User's manual, Maintenance manual *etc.* are to be prepared at the completion stage of the project for operating the system.

Absence of these documentations would not only hamper Wbfdcl's operation and maintenance of the system, but also Audit could not vouchsafe that Wbfdcl's systems maintain integrity and correctly process data.

Management in its reply stated (January 2015) that instructions have now been issued to service provider for compliance in the new system being developed.

## **SUNDARBAN INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED**

### **3.2 Loss of revenue**

**Sundarban Infrastructure Development Corporation Limited did not realise or short realised agency charges of ₹ 4.94 crore on 32 deposit works executed till March 2013.**

Sundarban Infrastructure Development Corporation Limited (SIDCL) was formed by the Government of West Bengal in May 2007 under the aegis of Sundarban Affairs Department. It was decided by the Government (April 2007) that SIDCL would have to meet its expenses from its own revenues and would be entitled to an agency charge of 10 *per cent* on works allotted to it. In addition, the Board of Directors of SIDCL also reiterated (April 2008) that agency charges needed to be collected (10 *per cent*).



Audit observed that SIDCL had no consistent system of claiming agency charges at 10 *per cent* on the works implemented by it; nor did it include agency charges while preparing estimates for allotted works. Audit noticed that SIDCL had not claimed agency charges on 27 works, while on five works it had claimed agency charges varying between one to nine *per cent* instead of 10 *per cent*. There was no recorded reason for not claiming/ short-claiming of agency charges amounting to ₹ 4.94 crore on 32 deposit works (as shown in **Annexure 3.3**).

Management stated (July 2014) that as a ‘doctrine of convention’, SIDCL had been following the principle of booking revenue (agency charges) on the projects on completion of 60 *per cent* work. But it was seen that it had not claimed agency charges even on completion of more than 80 *per cent* of works in as many as 17 out of the above 32 cases. But SIDCL as a Government Company should have followed the directives of the State Government of claiming agency charges on all the works allotted to it to safeguard its own interest.

By disregarding Government decision, SIDCL thus suffered a loss of ₹ 4.94 crore by not claiming or short claiming agency charges on works allotted to it.

The issue was brought to the notice of the Government in June 2014 and reminder was issued in July 2014 and October 2014. Their reply was awaited (January 2015).

### ***3.3 Unfruitful expenditure due to failure to ensure ownership of project land***

**Failure of Sundarban Infrastructure Development Corporation Limited to ensure ownership of land before taking up an eco-tourism project at Bakkhali led to unfruitful expenditure of ₹ 2.06 crore.**

Sundarban Infrastructure Development Corporation Limited (SIDCL) was set up in May 2007 under the Department of Sundarban Affairs (DSA), Government of West Bengal (GoWB). One of its objectives was to create tourism infrastructure including eco-friendly tourist resort at Bakkhali under Namkhana Block (District: South 24-Parganas). Sundarban Development Board<sup>8</sup> (SDB) also under DSA was already entrusted in January 2005 to develop eco-tourism infrastructure at Bakkhali and accordingly prepared a Detailed Project Report (DPR) in February 2009. On 24 February 2009, SDB handed over a copy of the DPR to SIDCL for implementation. As per DPR, the project consisting of a Tourist complex and Bus Stand-cum-Market

<sup>8</sup>A part of the Department of Sundarban Affairs (DSA), Government of West Bengal (GoWB) having no separate legal identity.

complex, was to be considered on about 10 acres<sup>9</sup> of land at Bakkhali. The DPR also showed that the land was fully owned by the DSA and only required conversion for building developments.

Audit noticed that that the land did not belong to DSA in the first place. While 3.46 acres was privately owned, the remaining 6.54 acres was vested with the District Authorities. According to rules<sup>10</sup>, SIDCL should have applied to the District Authorities for possession/ transfer of the land required for the project.

Without fulfilling the legal requirements for possession of the land, SIDCL awarded (February 2009/ December 2010) the work to Mackintosh Burn Limited (MBL), at ₹ 3.33 crore, with target of completion within 18 months from date of work order *i.e.* August 2010. Based on the estimated cost, DSA, GoWB sanctioned (March and November 2010) ₹ 3.48 crore and disbursed (March 2010 and January 2011) the amount<sup>11</sup> to SIDCL for the project. MBL commenced the work only after July 2010 and till March 2012, 65 *per cent* of the project and 90 *per cent* of the boundary wall were physically completed.

In the meantime, the District Administration received (August 2009) a request from the Ministry of Defence (MoD), Government of India (GoI) for land at Bakkhali for use by Coast Guard and subsequently, it had allotted (February 2011) 9.99 acres (including 6.54 acres under possession of SIDCL) of land to the MoD for setting up the base. Subsequently, it observed (October 2011) that SIDCL had already encroached upon 5.64 acres out of 9.99 acres of land allotted to the MoD and all constructions took place in the encroached part. Thereafter, the District Administration directed (January 2012) removal of all structures made by SIDCL on the encroached land. In April 2012, DSA withdrew from the project. SIDCL had incurred aggregate expenditure of ₹ 2.06 crore up to March 2012, towards construction of tourist complex (₹ 166.34 lakh), construction of boundary wall (₹ 36.75 lakh) and preparation of DPR (₹ 2.50 lakh) in the same period. In June 2014, BL&LRO<sup>12</sup> handed over possession of land to the Coast Guard.

SIDCL, while accepting the audit observation stated (July 2014) that the formalities of taking possession of the said land was not completed in due time and the project had to be abandoned under compulsion in the view of the security aspects.

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<sup>9</sup> J.L. No. 71/25, Revisional Survey Plot Nos. 98, 101, 102, 103, 104, 105, 106, 107, 111, 127 and 128 under *Mouza* : Lakshmipur Abad (Fraserganj *Gram Panchayat*).

<sup>10</sup> Rules 468, 469 and 470 of the West Bengal Land and Land Reforms Manual 1991

<sup>11</sup> In March 2010, ₹ 2.81 crore for Tourist Complex and Bus Stand-cum-Market Complex and ₹ 66.89 lakh in January 2011 for construction of boundary wall of tourist complex.

<sup>12</sup> Block Land & Land Reforms Officer, Namkhana

However, despite repeated requests SIDCL could not show any record/document to audit in support of their claim. It was not until July 2011 that SIDCL had even approached to the District Authority for transfer of the said land. Thus absence of due diligence in commencing the work without ensuring ownership and clear title to the project land by SIDCL led to unfruitful expenditure of ₹ 2.06 crore.

The issue was brought to the notice of the Government in June 2014. The replies were awaited (December 2014).

## **MACKINTOSH BURN LIMITED**

### **3.4 Loss due to defective design**

**Mackintosh Burn Limited incurred loss of ₹ 2.35 crore on construction of an underground reservoir-cum-booster pumping station due to preparation of initial design without considering the actual soil condition.**

Kolkata Metropolitan Water and Sanitation Authority (KMWSA) placed (January 2008) a Letter of Intent<sup>13</sup> (LOI) on Mackintosh Burn Limited (MBL) for construction of an underground reservoir-cum-booster pumping station at Gandhi Maidan, Akra, Kolkata at ₹ 7.25 crore. The formal work order<sup>14</sup> was issued in March 2008, with scheduled completion of work in September 2009.

The soil investigation report prepared by the Civil Engineering Department, Jadavpur University, Kolkata was annexed to the tender notice<sup>15</sup>. The tender, *inter alia*, provided that KMWSA would not entertain extra claim over the accepted price. The tender also mentioned that MBL would have to undertake fresh investigation of soil at three locations of the project site as approved by KMWSA for design of the foundation properly and for detailing the piles in conformity with the Soil Test Report as indicated above. MBL undertook requisite soil tests in March/ April 2008. These soil tests were in agreement with the soil investigation report, prepared by Jadavpur University.

MBL should have designed the foundation based on the soil conditions noticed in the soil investigation report. However, with view to economise cost of the project, MBL designed the reservoir considering a lesser thickness of the load-bearing platform on which the structure would be raised. Accordingly, it prepared the tender estimate.

KMWSA turned down (March 2008) the design 'as the soil condition was adverse to support such design' submitted by MBL. MBL thereafter altered

<sup>13</sup> LOI no. SE(GRWW)/Ph-II/2W-10/07/02 dated 08.01.2008.

<sup>14</sup> Work Order no. EE/Div-III/2W-1/08/59 dated 12.03.2008.

<sup>15</sup> Tender no. SE(GRWW)/PH-II/03 of 2007-08.

the design parameters in May 2008, which resulted in increase in quantity of cement, iron, steel and labour work.

The work was completed in August 2010 at a total cost of ₹ 9.55 crore<sup>16</sup> against which, MBL could recover ₹ 7.20 crore only till December 2012, leading to loss of ₹ 2.35 crore (₹ 9.55 crore – ₹ 7.20 crore) on the work. MBL could not recover the balance amount as the price quoted was firm as per terms and conditions of tender.

Government accepted (January 2015) the loss and stated that it arose as a result of use of additional concrete and steel reinforcement due to submission of revised drawing to the satisfaction of KMWSA.

Thus, due to preparation of initial design without considering the actual soil conditions as stipulated in the tender, MBL suffered loss of ₹ 2.35 crore.

### **3.5 Avoidable interest on cash credit due to lack of cash management**

**Mackintosh Burn Limited retained balances in non-interest bearing current account while paying interest on outstanding cash credit balance due to lack of proper cash management. This led to avoidable payment of interest of ₹ 2.10 crore.**

Mackintosh Burn Limited (MBL), a civil construction company drew cash credit from Allahabad Bank, Industrial Finance Branch (IFB) at Kolkata to meet working capital requirements. In terms of letters dated 3 May 2011 and 25 September 2012, IFB renewed the credit facilities of MBL and sanctioned a cash credit limit ₹ 25 crore. During April 2010 to March 2013, MBL had availed<sup>17</sup> cash credit ranging from ₹ 14.79 lakh to ₹ 24.81 crore on 926 days, at interest rates ranging between 12 and 16.75 per cent per annum to meet normal business expenses. MBL also operates 54 non-interest bearing current accounts<sup>18</sup> (Kolkata: eight, outstation: 46) in different banks. Out of eight current accounts in operation at Kolkata, the one with State Bank of India (SBI), Netaji Subhash (NS) Road Branch, Kolkata had the maximum transactions.

As per terms and conditions of cash credit arrangement, MBL can draw cash credit as per quarterly cash budget prepared by it and submitted to IFB along with explanation for variations between the estimated and actual quarterly

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<sup>16</sup> Cost of materials ₹ 5.73 crore + labour and sub-contractor payment ₹ 2.85 crore + other direct expenditure ₹ 0.97 crore.

<sup>17</sup> As per bank statements of Allahabad Bank, Industrial Finance Branch, Kolkata on 8 January 2011 (minimum) and 31 March 2013 (maximum) respectively.

<sup>18</sup> Allahabad Bank – 27 (Kolkata: three, outstation: 24), Bank of Baroda – one (outstation), Central Bank of India – one (Kolkata), ICICI Bank – one (Kolkata), Punjab National Bank – one (outstation), State Bank of India – 18 (Kolkata: one, outstation: 17), United Bank of India – three (Kolkata: one, outstation: two), Axis Bank – two (Kolkata and outstation).

cash budget. It was noticed that there was no system of preparing cash budgets as per terms and conditions of cash credit arrangement. Consequently, between April 2010 and March 2013, amounts<sup>19</sup> ranging from ₹ 20.70 lakh to ₹ 51.61 crore were lying idle in non-interest bearing current account with SBI, NS Road Branch, Kolkata, while cash credit drawn during the same period ranged from ₹ 14.79 lakh to ₹ 24.81 crore.

Audit scrutiny revealed the following:-

- During the period from April 2010 to March 2013, MBL had incurred an aggregate amount of ₹ 4.43 crore as interest on cash credit account.
- On 218 days out of 926 days when outstanding balances<sup>20</sup> ranged from ₹ 14.79 lakh to ₹ 16.80 crore in cash credit account, MBL had adequate balances<sup>21</sup> (ranging from ₹ 1.68 crore to ₹ 51.61 crore) in its current account with SBI, NS Road Branch, Kolkata. This amount could have been deposited in the cash credit account to reduce the outstanding balances in cash credit account to 'NIL' and thereby interest of ₹ 47.72 lakh could have been avoided.
- On the remaining 708 days (926 days – 218 days), the balances in non-interest bearing current account with SBI were not sufficient to completely pay off outstanding balances in cash credit account. However, interest burden of ₹ 1.62 crore would have been avoided if the amount available in non-interest bearing current account were deposited<sup>22</sup> in cash credit account by withdrawing the same from non-interest bearing current account with SBI.

Government stated (January 2015) that MBL keeps a close watch on bank balances lying at various current accounts to ensure that no fund is lying idle. Excess balances in outstation current accounts arise at the end of a financial year and after analysing fund requirement of each outstation project, these balances are transferred to cash credit account.

The reply may be weighed in light of the fact that the audit observation relates only to the main current account at SBI, NS Road Branch, Kolkata and does not consider the balances in outstation current accounts related to specific projects. Further, audit observed instances of idle balances in this current account on all 926 days over three years.

Thus, out of the total interest on cash credit account of ₹ 4.43 crore paid at the rate of 12 to 16.75 *per cent per annum* between April 2010 and March 2013,

<sup>19</sup> As per bank statements of State Bank of India, Netaji Subhash Road Branch, Kolkata on 6 March 2013 (minimum) and 26 April 2012 (maximum) respectively.

<sup>20</sup> As per bank statements of Allahabad Bank, Industrial Finance Branch, Kolkata on 8 January 2011 (minimum) and 24 July 2012 (maximum) respectively.

<sup>21</sup> As per bank statements of State Bank of India, Netaji Subhash Road Branch, Kolkata on 12 December 2011 (minimum) and 26 April 2012 (maximum) respectively.

<sup>22</sup> As per bank statements of SBI, Netaji Subhash Road Branch, Kolkata on 6 March 2013 (minimum balance: ₹ 20.70 lakh) and 1 August 2012 (maximum balance: ₹ 18.15 crore).

MBL could have avoided interest of ₹ 2.10 crore (₹ 47.72 lakh+ ₹ 1.62 crore) if it had followed proper cash management by utilising idle cash lying in its non-interest bearing current account with SBI, NS Road Branch, Kolkata to offset the drawal from its cash credit account.

## **WEST BENGAL STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED**

### **3.6 Loss due to under-insurance**

**West Bengal State Electricity Distribution Company Limited had under-reported value of set of generator motor main circuit equipment in 2010-11, forgoing expenditure of ₹ 1.97 crore.**

West Bengal State Electricity Distribution Company Limited (WBSEDCL) put all four<sup>23</sup> units of its Purulia Pump Storage Project (PPSP) to commercial operation between October 2007 and February 2008. WBSEDCL had taken out two “annual fire and machinery breakdown insurance” policies separately covering (a) Units I, II and III and (b) Unit IV and associated common auxiliaries of PPSP. The renewal of policies under (a) above were due in March each year and those under (b) in August every year. When proposing renewal of insurance policy for (b) in June 2009, WBSEDCL decided to consolidate entire insurance cover for PPSP. It was also decided that insurance would be made at replacement cost of assets to avoid risk of under-insurance. Consequently, from 2010-11, WBSEDCL took out consolidated annual insurance policy for PPSP as a whole (covering all the four units and auxiliaries) based on net replacement value<sup>24</sup>.

Scrutiny revealed that WBSEDCL had not prepared and maintained a fixed asset register, detailing value and location of its fixed assets, as required under the Companies Act, 1956<sup>25</sup>. In the initial<sup>26</sup> year, WBSEDCL declared the insurable amount, based on inventory of property insured as well as cost of supply and erection. Thereafter, the basis of insurable amount up to 2009-10 was not on record. Meanwhile, WBSEDCL after getting the assets of PPSP as on 31 March 2009 physically verified and revalued, disclosed, in the insurance policy for 2010-11, the replacement cost of a set of equipment *viz.* generator motor main circuit equipment (GMMCE) of PPSP at ₹ 4.94 crore.

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<sup>23</sup> Unit-IV: 10 October 2007, Unit-III: 12 November 2007, Unit-I: 31 January 2008 and Unit-II: 06 February 2008.

<sup>24</sup> Net replacement value is current replacement cost (calculated by considering cost of setting up a greenfield project with similar facilities) reduced by amount to reflect age, condition, function, obsolescence and remaining economic life.

<sup>25</sup> Companies (Auditor's Report) Order, 2003 issued by Government of India under sub-section (4A) of Section 227 of the Companies Act, 1956.

<sup>26</sup> For (a), initial year was 2008-09 while for (b), it was 2007-08.

The insurance policies for the years immediately preceding and succeeding *i.e.* 2009-10 and 2011-12, had declared value of GMMCE set at ₹ 44.73 crore<sup>27</sup> and ₹ 45.22 crore<sup>28</sup> respectively, which were not consistent with the replacement value declared in 2010-11. Clearly there was an undervaluation and hence under-insurance of GMMCE in 2010-11. The policy, *inter alia*, provided that in the event of a loss in a case of underinsurance, the claim would be reduced in proportion to the underinsured value of the property. If more than one item was covered under the policy, then each item shall also be subject to this condition.

Generator circuit breaker (a component of GMMCE set) of Unit IV broke down on 4 November 2010 and subsequently, WBSEDCL lodged (November 2010) a claim with the Insurance Company. Loss survey was undertaken by a surveyor appointed by the insurance company. The Surveyor had also pointed out (January 2012) that WBSEDCL had declared value of same GMMCE set in the policy for 2010-11 at ₹ 4.94 crore which was not justified.

Meanwhile, WBSEDCL re-commissioned Unit IV in April 2011 at an expenditure of ₹ 3.33 crore. The Surveyor assessed (May 2013) loss at ₹ 2.60 crore based on the spares replaced and their salvage value. They also concluded that GMMCE set was undervalued by 89 *per cent* during the year 2010-11 as compared to 2011-12. Consequently, due to undervaluation, claim was restricted to only ₹ 24.45 lakh, paid in July 2013. Considering the value of GMMCE set disclosed by WBSEDCL in insurance policies for 2009-10, *i.e.* ₹ 44.73 crore, claim would have worked out to ₹ 2.21 crore. Thus, under-reporting of value by WBSEDCL led to loss of ₹ 1.97 crore (₹ 2.21 crore – ₹ 0.24 crore).

Government attributed (September 2014) the variation in value of insurance coverage to adoption of different methods of valuation in each of the three years *viz.* 2009-10, 2010-11 and 2011-12. While accepting the fact that no formal fixed assets register was maintained, it added that total value of the assets be considered instead of single individual equipment value and that the under-insurance percentage computed had been taken up for review with the insurance company. The reply, however, overlooks the insurance policy clause that in the event of loss to an under-insured asset, the insurance claim would be reduced in proportion to the extent of under-insurance. This would not only be applicable to the total value of assets insured but also to each item covered under the policy.

<sup>27</sup> Unit 1: ₹ 6.99 crore and Units 2 and 3: ₹ 34.75 crore from 24 March 2009 to 23 March 2010 as well as Unit 4 : ₹ 2.99 crore from 28 August 2009 to 23 March 2010.

<sup>28</sup> Net replacement value based on book value as per accounts and appropriate indices of Reserve Bank of India.

Thus, by not adopting a consistent approach for valuation of assets for insurance coverage and non-maintenance of fixed asset register for PPSP led to undervaluation of assets resulting in loss of ₹ 1.97 crore to WBSEDCL.

**CALCUTTA STATE TRANSPORT CORPORATION, NORTH BENGAL STATE TRANSPORT CORPORATION, SOUTH BENGAL STATE TRANSPORT CORPORATION, THE CALCUTTA TRAMWAYS COMPANY (1978) LIMITED AND WEST BENGAL SURFACE TRANSPORT CORPORATION LIMITED**

**3.7 Subsidy forgone due to non-submission of claims in prescribed manner**

**All five state transport undertakings had to forego subsidy of ₹ 2.15 crore on high speed diesel as they failed to lodge claims in time for the specified period in the prescribed manner.**

With view to cater to consistent demand from passenger transport operators for increase in fares to keep pace with rising prices of high speed diesel (HSD), the Transport Department, Government of West Bengal (TD-GoWB) decided<sup>29</sup> (October 2010) to provide subsidy of ₹ two per litre of HSD to all passenger transport operators including state transport undertakings<sup>30</sup> (STUs) and launch services with retrospective effect from 16 August 2010. The order also provided that Managing Directors of the five STUs were required to lodge, with the Transport Department, separate monthly claims for its own operation and franchisee operations within tenth of each succeeding month along with statement showing purchase of HSD on dates along with purchase slips. As per the above order, while passenger transport operators had to lodge claims for the periods 16 August 2010 to 31 August 2010 and September 2010 with Regional Transport Authorities and State Transport Authority within 10 October 2010, STUs had to raise claims on TD-GoWB each month. Moreover, HSD subsidy would be for three months which was not extended subsequently.

All depots of STUs report fuel purchases to their respective head offices through monthly/ fortnightly Management Information System. Yet, test check of records showed that none of the STUs had lodged subsidy claims aggregating to ₹ 2.15 crore for subsidy period within the stipulated timeframe of 10 October 2010 to 10 December 2010 as shown in **Table 3.1**.

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<sup>29</sup>Memo No. 5566-WT/ 3M-40/ 2010 dated 01 October 2010.

<sup>30</sup> Calcutta State Transport Corporation (CSTC), South Bengal State Transport Corporation (SBSTC), North Bengal State Transport Corporation (NBSTC), The Calcutta Tramways Company (1978) Limited (CTC) and West Bengal Surface Transport Corporation Limited (WBSTCL).



**Table 3.1: Statement showing HSD consumed by each STU between 16 August 2010 and 15 November 2010 and subsidy claim thereon**

Name of STU	HSD consumed (in Kl)	Subsidy @ ₹ 2 per litre (₹ in lakh)	Status of claim as at 30 April 2014
CSTC	2,760.00	55.20	Depot Managers were instructed in September 2010 by the Deputy Director of Operations to furnish relevant details. No claim was however lodged.
NBSTC	2,376.00	47.52	Single claim for the period from 16 August to 15 November 2010 was lodged with TD-GoWB on 15 May 2014 after being pointed out in audit.
SBSTC	2,448.00	48.96	Subsidy claim for own operations from 16 August to 15 November 2010 belatedly lodged on 29 March 2011. Subsidy claim for franchisee operations from August to December 2010/ January 2011 also lodged belatedly on 29 March 2011.
CTC	1,697.66	33.95	Claims from 16 August to 30 September 2010, 16 August 2010 to 28 February 2011 and 16 August 2010 to 31 May 2011 were belatedly lodged on 21 October 2010, 22 March 2011 and 22 June 2011 respectively, indicating that claims for the period of August 2010 were repeated twice. GoWB, however, acknowledged the receipt of claim of 22 June 2011 only.
WBSTCL	1,478.31 <sup>31</sup>	29.57	Claim from 16 August 2010 to 31 March 2011 belatedly submitted on 29 June 2011.
<b>TOTAL</b>	<b>10,759.97</b>	<b>215.20</b>	

*Source: Records of the STUs*

From the above table, it is clear that CSTC had not yet lodged any claim, NBSTC, SBSTC, CTC and WBSTCL had not lodged claims for each month separately within due dates and had raised claims beyond the admissible date for claim of subsidy *i.e.* 15 November 2010. Besides, the Transport department observed (June 2011) that none of the STUs except CTC had claimed subsidy. Consequently, no STU received subsidy on HSD due to non-compliance of Government directives.

NBSTC in its reply stated (August 2014) that it did not submit subsidy claims in time due to non-receipt of the Government order. SBSTC in its reply stated (August 2014) that they have not received any subsidy under this scheme. CTC replied (August 2014) that there was no lapse on their part. WBSTCL in its reply stated (November 2014) that no subsidy has been received from the Government.

<sup>31</sup>Includes HSD consumed for launch services.

NBSTC's reply indicates the lack of co-ordination between the controlling administrative department (TD-GoWB) and NBSTC. CTC's contention is not acceptable as even the first claim was lodged after the due date as mentioned earlier in the para. However, both SBSTC and WBSTC submitted their claims after the due date as mentioned in the para earlier and CSTC did not furnish any reply.

Government, however accepted (November 2014) the audit observation and stated that the scheme was operational for three months from 16 August 2010 with an allotment of ₹ five crore for the purpose. An amount of ₹ 68.92 lakh was disbursed to private transport operators through RTOs and Public Vehicles Directorate, Kolkata under TD-GoWB. Government further added that none of the STUs submitted their claims within the due date and consequently, their claims could not be processed. As such action was being taken to surrender the balance of ₹ 4.31 crore to the Finance Department.

Thus, failure of the STUs to claim from GoWB subsidy on HSD consumed in each month between 16 August and 15 November 2010 within tenth of the following month in the prescribed manner led to forgoing of HSD subsidy of ₹ 2.15 crore.

### **CALCUTTA STATE TRANSPORT CORPORATION AND WEST BENGAL SURFACE TRANSPORT CORPORATION LIMITED**

#### **3.8 Avoidable expenditure on procurement of high speed diesel**

**Two State Transport Undertakings incurred avoidable expenditure of ₹ 1.85 crore due to delays ranging from 20 to 278 days in implementing Government order for procurement of diesel at cheaper rates from retail outlets.**

All five State transport undertakings (STUs)<sup>32</sup> of the Transport department, Government of West Bengal procured high speed diesel (HSD) in bulk from public sector oil companies for their vehicles. In January 2013, Government of India had announced that HSD would be sold to bulk consumers at market prices effective from 18 January 2013. Consequently, price of HSD at retail outlets became lower. To take advantage of the lower price, three STUs<sup>33</sup> had promptly moved over to procurement of HSD from retail outlets between 18 and 21 January 2013. Transport Department also issued directions on 24 January 2013 to all the five STUs to purchase HSD from retail outlets to avail the benefit of lower prices of HSD at retail outlets. However, two STUs, namely, Calcutta State Transport Corporation (CSTC) and West Bengal Surface Transport Corporation Limited (WBSTCL) delayed in this regard,

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<sup>32</sup> Calcutta State Transport Corporation, North Bengal State Transport Corporation, South Bengal State Transport Corporation, The Calcutta Tramways Company (1978) Limited and West Bengal Surface Transport Corporation Limited.

<sup>33</sup> North Bengal State Transport Corporation, South Bengal State Transport Corporation and The Calcutta Tramways Company (1978) Limited

leading to avoidable excess expenditure, as discussed in the following paragraphs.

CSTC did not implement the Government's direction from the designated date to procure HSD from the retail outlets, but placed the matter before Board of Directors (BoD) on 12 February 2013 after delay of 19 days and obtained its approval. Even after getting the approval of BoD, it continued to purchase HSD at bulk rates till 16 March 2013. Between 24 January and 16 March 2013, CSTC purchased 1,212 Kilolitres (Kl) of HSD for ₹ 7.57 crore<sup>34</sup>. The corresponding retail price would have been ₹ 6.28 crore. Thus it incurred avoidable expenditure of ₹ 1.29 crore due to delay of 51 days in implementing the Government's order.

WBSTCL was operating<sup>35</sup> (January 2013) bus and marine vessels depots. Of these, Karunamayee International Bus Terminal, Salt Lake depot and Marine Vessels depot at Millenium Park, implemented the Government order to move over to retail purchase of HSD on 13 February, 8 June and 22 November 2013 respectively. WBSTCL purchased aggregate of 672 Kl of HSD during 24 January to 22 November 2013 for ₹ 4.13 crore<sup>36</sup> against corresponding retail price of ₹ 3.57 crore, thereby leading to avoidable expenditure of ₹ 0.56 crore due to delays of 20, 135 and 278 days respectively in complying with Government's directions.

CSTC and WBSTCL agreed (October/ November 2014) that there was delay in shifting of procurement of HSD to retail outlets due to procedural requirements. Audit observed that this delay arose from absence of prompt action by both the Managements to fulfil the requirements by taking up the issues with GoWB.

Thus, delay in compliance of Government directions by both STUs (CSTC and WBSTCL) led to avoidable expenditure of ₹ 1.85 crore (₹ 1.29 crore + ₹ 0.56 crore) on procurement of 1,884 Kl of HSD between 25 January and 22 November 2013.

This matter was brought to the notice of the Government in May 2014 and reminders issued in July 2014 and October 2014. Their reply was awaited (January 2015).

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<sup>34</sup>From 24 January to 12 February 2013: 480 Kl at ₹ 2.94 crore; 13 February to 16 March 2013: 732 Kl at ₹ 4.63 crore.

<sup>35</sup>Bus depots at Salt Lake, Howrah and Karunamayee International Bus Terminal as well as marine vessels depot at Millenium Park.

<sup>36</sup>Bus (24 January to 06 June 2013) : 444 Kl at ₹ 2.68 crore; Vessels (24 January to 22 November 2013) : 228 Kl at ₹ 1.45 crore.

## SOUTH BENGAL STATE TRANSPORT CORPORATION

### 3.9 Excess payment of toll charges on roads and bridges

**South Bengal State Transport Corporation failed to avail concession on payment of toll charges at Budbud-Palsit section of National Highway 2 and Vidyasagar Setu leading to excess payment of ₹ 79.74 lakh.**

Under National Highways Act 1956, the Ministry of Road Transport and Highways, Government of India (MoRTH-GoI) is empowered<sup>37</sup> to levy fees (toll charges) for services or benefits rendered on National Highways (NH). In November 2012, MoRTH-GoI notified<sup>38</sup> the rates at which toll charges were to be collected by National Highways Authority of India (NHAI) at Palsit Toll Plaza in Burdwan district from vehicles plying on NH 2 between Budbud and Palsit. The notification also provided that toll charges for commercial vehicles registered in Burdwan district would be given a rebate 50 per cent of the applicable rates.

South Bengal State Transport Corporation (SBSTC), with headquarters at Durgapur in Burdwan district, operates long distance bus services from fifteen<sup>39</sup> depots. All buses of SBSTC are registered in Burdwan district. The Transport department, Government of West Bengal (TD-GoWB) is SBSTC's controlling administrative department. Audit observed (March 2014) that between November 2012 and March 2014, SBSTC paid toll charges of ₹ 1.13 crore at full rates (**Annexure 3.4**) without availing 50 per cent concession for commercial vehicles registered in Burdwan district, leading to excess payment of ₹ 56.38 lakh. In April and May 2013, SBSTC took up the issue of concession with NHAI but there was no response from NHAI. SBSTC neither pursued the issue with NHAI nor subsequently brought the matter to the notice of TD-GoWB for intervention with NHAI. Moreover, even after taking up the matter with the NHAI, they did not ensure that concessional rates were availed by all their buses when plying on that stretch of NH 2.

Similarly, TD-GoWB exempted<sup>40</sup> (October 2013) from levy of toll charges with immediate effect all buses of the five state transport undertakings including SBSTC that plied across 'Vidyasagar Setu'. SBSTC again failed to avail exemption for reasons not on record and paid toll charges of ₹ 23.36 lakh (**Annexure 3.4**) between November 2013 and March 2014.

The Government stated (November 2014) that at Palsit toll plaza, NHAI withheld the concession on the basis of a clause in the notification of MoRTH-GoI, that Delhi Road was available as an alternative. Further, in case of Vidyasagar Setu, HRBC<sup>41</sup> had granted free passes for 75 buses only from 19 March 2014.

<sup>37</sup>Section 7 read with Rules made under Section 9.

<sup>38</sup>S.O. No. 2670(E) dated 2 November 2012.

<sup>39</sup>Durgapur, Burdwan, Bankura, Arambagh, Kalna, Asansol and Purulia under Durgapur Division as well as Barasat, Howrah, Midnapur, Habra, Haldia, Digha, Titagarh and Belghoria under Belghoria Division.

<sup>40</sup>Notification no. 3763-WT/ TR/ O/ 11E-52/ 94 dated 10 October 2013.

<sup>41</sup>Hooghly River Bridge Commissioners, under the administrative control of TD-GoWB, operating tolls on Vidyasagar Setu.

The fact remains that SBSTC had approached NHAI in December 2014 for exemption from payment of toll charges. Further, the delay at *Vidyasagar Setu* indicated apathy of SBSTC to immediately take up the issue with TD-GoWB and HRBC, an agency under the same administrative Department leading to SBSTC paying toll charges till March 2014.

Thus, between November 2012 and March 2014, SBSTC paid toll charges of ₹ 79.74 lakh (₹ 56.38 lakh + ₹ 23.36 lakh) in excess by not availing the concession that was otherwise available to it.



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**(Economic & Revenue Sector Audit)**  
**West Bengal**

**KOLKATA**  
**The 19 March 2015**

*Countersigned*



**NEW DELHI**  
**The 21 March 2015**

**(SHASHI KANT SHARMA)**  
**Comptroller and Auditor General of India**