

# CHAPTER II



## Chapter II

### Performance Audits relating to Government Companies

#### West Bengal State Electricity Distribution Company Limited

### 2.1 Billing and Collection of Revenue including IT Audit

#### Executive Summary

##### *Introduction*

West Bengal State Electricity Distribution Company Limited (WBSEDCL) is the main electricity distribution company of the State and undertakes business of electricity distribution to consumers within the State. It procures power through direct purchase from State/ Central PSUs as well as private companies. As of March 2016, WBSEDCL had a network of over 1.64 crore consumers throughout the State. It also generates small amount of hydro-electric power which it sells to consumers.

##### *Maximisation of revenue through reduction of commercial losses and improving collection efficiency*

WBSEDCL had no plans/ targets to reduce aggregate technical and commercial (AT&C) losses. Due to delays in raising bills, theft of electricity, delay in disconnection of power supply, unauthorised use of electricity by deemed disconnected consumers and transformers having unregistered consumers, WBSEDCL suffered loss of revenue of ₹ 175.85 crore. Moreover, non-adherence to the regulations and violations of the provisions of the Electricity Act, 2003 led to continued AT&C losses.

##### *Compliance with billing and collection system with applicable tariff orders, codal provisions, laid down procedures and regulations issued by WBERC*

WBSEDCL failed to comply with relevant provisions of the Act/ tariff orders which led to loss of revenue. Failure of spot billing system, non-realisation of electricity duty and improper payment of disconnection/ reconnection charges led to inefficiencies in collection and loss of revenue as relevant provisions/ orders of the Act/ tariff orders were not complied with.

##### *Adequacy of IT infrastructure, IT plan, business continuity plan, IT controls, disaster plan and optimum security for achieving data completeness, accuracy and reliability*

WBSEDCL incurred infructuous expenditure of ₹ 45.75 crore as it had procured software licenses without required IT infrastructure. In absence of automatic categorisation/ updation of consumers' database on the basis of nature of connection, contract demand, etc., in its IT billing system, WBSEDCL suffered loss of revenue of ₹ 8.22 crore. Delay in implementation

of billing software and lacunae in the system led to non-achievement of the projected benefits to WBSEDCL as well as to the consumers as a whole.

### **Conclusion**

WBSEDCL failed to formulate any plan or set targets for reduction of AT&C losses for its consumers as a whole, leaving 81.25 *per cent* of its total consumers uncovered by such plan. Applicable tariff orders, codal provisions, laid down procedures and regulations issued by West Bengal Electricity Regulatory Commission (WBERC) were either violated or not followed. There were inadequacies of infrastructure, planning and controls in the billing system. As a result of all these deficiencies, its primary objective of revenue realisation could not be met.

### **Recommendations**

WBSEDCL may formulate policy and set targets for reduction of AT&C losses to achieve the norms fixed and assess reasons for high AT&C losses to put in place a plan to address these issues to reduce AT&C losses as well as to maximise its revenue. It should maximise meter reading through Spot Billing Machines to realise revenue in time. Further, it may review and incorporate appropriate validation of inputs in the existing software in conformity to its business needs, to minimise the incorrect generation of bill. It should institute a system to incorporate the current and relevant orders/ tariffs into the business rules in the software, whenever these are modified/ changed by WBERC/ Acts/ Rules.

## **2.1.1 Introduction**

West Bengal State Electricity Distribution Company Limited (WBSEDCL) was incorporated (February 2007) as a Government Company after restructuring of the erstwhile West Bengal State Electricity Board in terms of Section 131 of the Electricity Act, 2003 (the Act). WBSEDCL commenced operations in April 2007.

WBSEDCL is the main electricity distribution company of the State and undertakes business of electricity distribution to consumers within the State. It procures power through direct purchase from State/ Central PSUs as well as from private companies. As of March 2016, WBSEDCL had a network of over 1.64 crore consumers throughout the State. It also generates small amount of hydro-electricity which it sells to consumers.

For better billing and improved customer services, WBSEDCL migrated (August 2014) its metering, billing and collection system to System Application Products – Industrial Solution for Utilities (SAP-ISU) from a legacy energy billing application system based on ORACLE.

## **2.1.2 Organisational structure**

WBSEDCL functions under Department of Power and Non-Conventional Energy Sources (DPNCES), Government of West Bengal (GoWB). It is managed by Board of Directors (BoD) headed by a Chairman and ten other

directors, all nominated by State Government. Chairman and Managing Director (CMD) of WBSEDCL is the Chief Executive Officer and is assisted by Director (Distribution), Director (Generation), Director (Projects), Director (Regulatory & Trading), Director (Finance), Director (HR), and Executive Director (IT) in managing day to day operations.

WBSEDCL renders services to consumers through its five Zonal offices, 18 Regional offices, 70 Distribution divisions and 501 Customer Care Centres (CCC) situated across the State.

### **2.1.3 Audit objectives**

A Performance Audit was conducted to ascertain whether WBSEDCL had:

- Policies and plans to maximise revenue by reducing commercial losses and improving collection efficiency to restrict aggregate technical and commercial (AT&C) losses;
- A system of billing and collection to ensure compliance with applicable tariff orders, codal provisions, laid down procedures and regulations issued by West Bengal Electricity Regulatory Commission (WBERC) to ensure revenue realisation; and
- Adequate IT plan, IT infrastructure, business continuity plan, IT controls, disaster plan and optimum security for the billing databank to achieve data completeness, accuracy and reliability.

### **2.1.4 Scope and Methodology of Audit**

The Performance Audit was conducted between April to August 2016. Its scope covered activities of billing and collection system of WBSEDCL (centralised/ de-centralised bulk<sup>18</sup> consumers and low/ medium voltage<sup>19</sup>) including computerisation of this operation. This audit included test check of records in respect of operations/ activities maintained at Headquarters office, Regional offices, 15 distribution divisions and 30 customer care centres for the period from 2011-16. Selection of unit offices was done on the basis of probability proportional to size (PPS) method of sampling.

Audit methodology involved (i) scrutiny and verification of records maintained at various offices (ii) review of Government directives, minutes of meetings of BoD and Audit Committee (iii) review of tariff orders, APRs<sup>20</sup> and related papers of WBERC (iv) examination of billing records maintained through SAP-ISU and ERP<sup>21</sup> (v) issue of audit enquiry/ observations and (vi) interaction with management. An Entry Conference was held on 16 March 2016 wherein audit objectives, audit criteria, scope and methodology of the Performance Audit were discussed with the management of WBSEDCL and Department of Power and Non-Conventional Energy

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<sup>18</sup> 50 KVA and above.

<sup>19</sup> Below 50 KVA.

<sup>20</sup> Annual Performance Review.

<sup>21</sup> Enterprise Resources Planning.

Sources (DPNCES), Government of West Bengal (GoWB). An Exit Conference was held on 22 December 2016 to discuss the audit observations, WBSEDCL's responses, audit conclusions and recommendations. It was attended by the Chairman and Managing Director as well as senior management of WBSEDCL and the Chief Controller of Audit, DPNCES, GoWB. The replies and views of Government/ Management have been taken into account and suitably incorporated in the report.

### 2.1.5 Audit criteria

Audit criteria adopted for assessing achievement of audit objectives had been derived from the following:

- The Electricity Act, 2003 (Act);
- Notifications/ regulations of Central Electricity Authority (CEA) and West Bengal Electricity Regulatory Commission (WBERC);
- National Tariff policy;
- WBSEDCL's plans/ programmes for reduction of AT&C losses, standard operating procedures, internal orders/ circulars; and
- Tariff orders of WBERC.

### 2.1.6 Acknowledgement

Audit acknowledges the co-operation of WBSEDCL in providing the necessary records and information in connection with the conduct of this Performance Audit.

### 2.1.7 Financial Performance

Summarised working results of WBSEDCL for the last five years upto 2015-16 are shown in **Table 2.1.1**.

**Table 2.1.1: Summarised working results of WBSEDCL**

(₹ in crore)						
Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Total income	14,172.85	17,499.85	17,879.92	19,583.34	18,611.30
2	Total expense	14,070.22	17,391.49	17,850.31	19,553.30	18,576.12
3	Profit before tax (PBT) (1-2)	102.63	108.36	29.61	30.04	35.18
4	Tax	29.15	26.64	10.54	10.22	13.60
5	Profit after tax (PAT) (3-4)	73.48	81.72	19.07	19.82	21.58
6	Paid up capital	2,558.40	2,256.74	2,256.74	2,256.74	2,256.74
7	Non-current liabilities <sup>22</sup>	11,177.35	13,065.64	15,037.42	16,014.82	17,425.51
8	Debt Equity Ratio (7/6)	4.37:1	5.79:1	6.66:1	7.1:1	7.72:1

(Source: Annual Accounts of WBSEDCL)

<sup>22</sup> Non-current liabilities include long term borrowings as well as liabilities on account of purchase of power to be discharged over a long period.

Analysis of working results and financial performance of WBSEDCL for the last five years till March 2016 brought out the following:

- Revenue as well as expense increased steadily from 2011-12 till 2014-15 on account of upward revision of tariff in energy charges before declining in 2015-16. The fall in revenue in 2015-16 was due to decrease in the number of bulk consumers mostly belonging to the iron and steel industry.
- Net profit of WBSEDCL decreased to ₹ 21.58 crore in 2015-16 from ₹ 73.48 crore in 2011-12. This was attributable to increase in finance cost to ₹ 1,451.57 crore (111 per cent) from ₹ 687.24 crore and other expenses<sup>23</sup> to ₹ 1,122.41 crore (98 per cent) from ₹ 565.69 crore in 2015-16 over the year 2011-12 respectively. The finance cost had increased due to jump of 50.43 per cent in long term borrowings for projects from financial institutions and 272.38 per cent in short-term loans and cash credit from banks to meet the working capital requirements during the period from 2011-12 to 2015-16. Besides, other expenses included expenditure on outsourced jobs (manpower related) that had increased by 159 per cent.
- Debt-equity ratio increased from 4.37 in 2011-12 to 7.72 in 2015-16 due to increase of borrowings for financing various projects.

### Audit findings

Audit findings are discussed in the succeeding paragraphs.

#### **2.1.8 Maximisation of revenue through reduction of commercial losses and improving collection efficiency**

When electricity is carried from the generation source to the consumers, some electricity is lost by way of distribution loss and commercial loss. The profitability of an electricity distribution company depends largely on the efficiency of reduction of such losses, proper billing and collection.

##### **2.1.8.1 Aggregate Technical and Commercial (AT&C) losses**

The distribution system links the power generation source and the ultimate consumers of electricity. For efficient functioning of the system, it must be ensured that there are minimum losses in sub-transmission and distribution of power. Transmission and Distribution (T&D) loss is energy lost in the network while flowing from the generation source to the consumers. Aggregate Technical and Commercial (AT&C) loss is the difference between energy available for sale (after adjusting for transmission losses and trading in energy) and energy realised. Efficiency of operations is indicated by efforts of

<sup>23</sup> Other expenses include cost of generation of power, expenses for outsourced jobs, repair and maintenance expenses, administrative and general expenses, etc.

the electricity distribution company to reduce/ control these losses by proper billing and collection for increasing revenue from the sale of electricity.

**Table 2.1.2** shows the details of billing and collection efficiency and aggregate technical and commercial (AT&C) losses for the period from 2011-12 to 2015-16:

**Table 2.1.2 : Showing status of Billing & Collection efficiency and AT&C losses**

Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1. Billing efficiency <sup>24</sup> (in per cent)	74.64	74.18	71.64	72.10	71.98
2. Collection efficiency <sup>25</sup> (in per cent)	91.83	87.36	97.45	94.80	95.37
3. Standard norm of T&D loss by WBERC (in per cent)	17.75	17.50	17.50	17.50	17.50
4. Actual T&D Loss (in per cent)	24.88	25.40	27.96	27.60	27.74
5. T&D loss in excess of norm (in per cent)	7.13	7.90	10.46	10.10	10.24
6. Standard norm of AT&C loss by GoI (in per cent)	-	-	30.51	29.00	28.00
7. Actual AT&C loss (in per cent)	32.18	35.79	30.66	32.52	31.58
8. AT&C loss in excess of norm (in per cent)	-	-	0.15	3.52	3.58

(Source : Annual Accounts of WBSEDCL, Notifications issued by WBERC and Ministry of Power, GoI)

The table shows that during 2011-12 to 2015-16 both the actual T&D loss and AT&C loss were higher than the standard norms fixed by WBERC and Ministry of Power, GoI. In this context it was observed that WBSEDCL had formulated (April 2010) a plan to reduce the AT&C losses of 62 specified towns within five years from 2011-12 to 2015-16 under the GoI-funded scheme (R-APDRP<sup>26</sup>) covering 18.75 per cent of its total consumers only. Apart from this, WBSEDCL had not formulated any plan or set targets for reduction of AT&C losses for the remaining towns, which comprised 81.25 per cent of its total consumers. Though this issue had been discussed several times by Board of Directors (BoD) during the period of audit, no plan/targets were formulated by WBSEDCL. Audit observed that high AT&C losses were attributable to factors discussed in the subsequent paragraphs.

The Management did not address the audit observation in its reply.

<sup>24</sup> Energy billed as a percentage of energy available for sale.

<sup>25</sup>  $(\text{Net revenue from sale of energy} - \text{Change in receivables for sale of energy}) \times 100 / (\text{Net revenue from sale of energy})$ .

<sup>26</sup> Restructured Accelerated Power Development and Reforms Programme (R-APDRP).

### 2.1.8.2 *Loss of interest due to delays in raising of energy bills*

Regulation 36/ 55 (September 2007/ August 2013) of WBERC specified that if meter reading was taken through Meter Reading Instruments/ Automated Meter Reading System and if it was not feasible to record such meter reading on a card/ book/ document, then the licensee would, after meter reading was taken, raise the bill as early as possible. In case of monthly billing, meter reading would normally be taken between a period of 28 and 32 days of the last meter reading unless specifically exempted by the Commission in deserving cases, keeping in view the area of operation of the licensee, type of consumer, *etc.* Consumers receiving electricity at High Voltage (HV)<sup>27</sup> and Extra High Voltage (EHV) would be issued monthly bills with due dates of payment within 30 days of closure of the billing month.

WBSEDCL took meter readings for de-centralised and centralised bulk consumers (HV & EHV) through on the spot Meter Reading Instruments (MRI) and remote access Meter Data Acquisition System (M-DAS). As on March 2016, out of 7,532 de-centralised and centralised bulk consumers (HV & EHV), modems were installed for 5,029 consumers for M-DAS reading and for the balance of 2,503 consumers, meter readings were to be taken on the spot through MRI. Audit observed that out of 5,029 consumers where modems were installed, metering through remote access (M-DAS) was done only with regard to 3,588 consumers; the rest were billed on the basis of on spot reading (MRI) which caused delays. Audit observed that due to delay in taking meter readings, raising of bills in time by WBSEDCL with respect to 863 consumers was impacted, as explained in the subsequent paragraphs.

Audit further observed that there were delays in raising of energy bills with regard to centralised bulk consumers (HV & EHV) ranging from one day to 88 days which resulted in loss of interest of ₹ 3.84 crore<sup>28</sup>. The primary reason for late billing was delay in taking/ receiving meter readings. Other reasons included receipt of incomplete meter readings, problems in meter data acquisition system (M-DAS) due to weak signals, non-replacement of burnt out modems and non-resolution of connectivity problem of modem port with meters.

Management accepted (December 2016) that there were delays in raising bills and stated that necessary action had been initiated to improve communication for raising bills in time.

### 2.1.8.3 *Theft of electricity*

Section 135 of the Act stipulates that theft of energy is a punishable offence. Section 126 of the Act and Regulation 36 of WBERC specifies that

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<sup>27</sup> As per WBERC regulation 36 of September 2007, HV means the voltage exceeding 650 volt but not exceeding 33,000 volt and EHV means the voltage exceeding 33,000 volts.

<sup>28</sup> Calculated at the rate of interest (11 *per cent*) paid on loans taken by WBSEDCL, with reference to the period of delay in billing.

provisional bill, after detection of theft, has to be raised by considering the actual load used by the consumer.

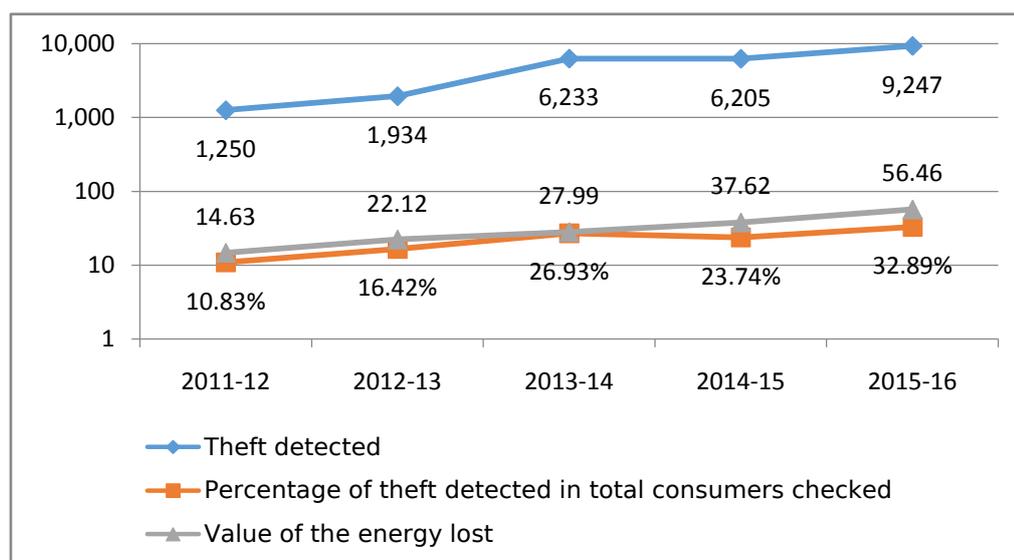
**Table 2.1.3** and **Figure 2.1.1** show the details of theft of electricity during 2011-16.

**Table 2.1.3: Theft of electricity**

Year	Number of consumers (in lakh)	No. of consumers checked by WBSEDCL (in nos.)	Percentage of consumers checked to total consumers	Theft detected (in nos.)	Percentage of theft detected in total consumers checked	Value of the energy lost (₹ in crore)	Realised amount (₹ in crore)
2011-12	101.12	11,540	0.11	1,250	10.83	14.63	5.31
2012-13	119.87	11,780	0.10	1,934	16.42	22.12	6.99
2013-14	136.27	23,145	0.17	6,233	26.93	27.99	12.03
2014-15	151.89	26,132	0.17	6,205	23.74	37.62	13.92
2015-16	163.65	28,113	0.17	9,247	32.89	56.46	25.02

(Source : Information provided by WBSEDCL.)

**Figure 2.1.1 Analysis of data relating to theft of electricity**



**Table 2.1.3** and **Figure 2.1.1** showed that:

- The number of thefts detected had been increasing steeply over the period along with the value of the energy lost contributing significantly to the loss of profitability. This assumes even more importance in view of the fact that the percentage of checking has only improved marginally; if it is improved further, then the detection of theft is likely to be significantly higher.

- No targets/ norms were fixed for inspection; however, audit observed that inspection of consumers' premises by WBSEDCL<sup>29</sup> was minimal, ranging from 0.10 to 0.17 *per cent* of total number of consumers.
- Only a small proportion of the assessed amounts were being realised on account of appellate procedures and the related enforcement issues. Percentage of recoveries against the assessed amounts ranged between 31.60 *per cent* and 44.31 *per cent* during 2011-12 to 2015-16 due to reduction in assessed bills after issue of provisional bills. Random check by Audit showed that in 303 cases, assessed bills were reduced without actual verification of actual consumption. In these 303 cases the total amount so reduced was ₹ 2.35 crore.

Management stated (December 2016) that steps were being taken for intensifying the number of checking programmes. Further, a committee had been constituted for improving the existing procedures for assessment of electricity charges in case of theft.

#### **2.1.8.4 Accumulation/ non-realisation of outstanding dues**

Section 47 of the Act stipulates that a distribution licensee may require any person, who requires supply of electricity in pursuance of Section 43, to furnish reasonable security, as determined by regulations, covering all likely dues. Payment of bills/security deposit can be made through Letter of Credit, bank guarantee or cash. According to WBERC's Gazette Notification 52, consumers who pay their energy bills through Letter of Credit (LC) need not pay any security deposit and its validity should be extended at least three months before its expiry, failing which the distribution licensee may refuse to supply electricity. It is further stipulated that security deposit can be in the form of a Bank Guarantee (BG) equivalent to three months of estimated bill of consumption. Non-adherence to the provisions of the Act and regulations would lead to disconnection of supply.

Audit test-checked 56 consumers whose power supply were disconnected by WBSEDCL due to non-payment of electricity bills during the period 2011-12 to 2015-16 and observed the following:

- (a) WBSEDCL did not disconnect power supply before expiry of validity of LC and BG<sup>30</sup> of 11 consumers against whom ₹ 45.36 crore was receivable as of March 2016. WBSEDCL, however, terminated the agreements with those consumers for non-payment of dues. Thus, due to non-renewal of LC in time as per WBERC's Notification 52 and the Act (Section 44), WBSEDCL suffered loss of ₹ 45.36 crore.
- (b) Two consumers<sup>31</sup> did not pay energy bills through LC as respective banks had refused (September 2012/ December 2014) to honour their

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<sup>29</sup> Security and Loss Prevention Wing based in all regional offices.

<sup>30</sup> Letter of Credit/ Bank Guarantee.

<sup>31</sup> M/s Sri Vasavi Industries Limited (VIL) and M/s Jainex Metaliks Limited (JML).

bills due to insufficiency of funds, although LC was valid till June 2015/ March 2015. WBSEDCL, however, had allowed these consumers to consume energy upto November 2014/ May 2015, in violation of the Act and WBERC's Notification 56. As a result, WBSEDCL suffered loss of revenue of ₹ 25.84 crore.

- (c) WBERC's Notification 55 (*vide* Clause 4.4.1) stipulated that the licensee shall disconnect the supply of energy to a consumer, if the latter makes such a request in writing, within two working days of making the written request. It shall be the duty of the consumer to clear all outstanding dues to the licensee except the last bill for supply till the date of disconnection, before making a request for such disconnection. The consumer shall collect the last bill from the licensee and make the payment. In case of default, the amount shall be adjusted by the licensee against his security deposit.

In this connection Audit had seen that two consumers<sup>32</sup> had applied (June 2013/ June 2015) for disconnection of power supply on account of non-requirement of power. WBSEDCL disconnected (June 2013/ November 2015) their power supplies and terminated agreements with them without realising the outstanding dues of ₹ 2.17 crore and ₹ 9.56 crore respectively by failing to adhere to WBERC's notification 55.

Management stated (December 2016) that supply could not be disconnected till expiry of validity of LC/ BG. Further, banks had stopped payment against valid LCs. Therefore, WBSEDCL proposed to take up with WBERC the deletion of LC clause from security deposit as well as payment mechanism. Moreover, in respect of one consumer, an amount of ₹ 6.99 crore out of ₹ 9.56 crore had been recovered. Reply of the management is not tenable as the Company did not take any action against the banks for dishonouring the LCs/ BGs issued by them.

#### **2.1.8.5 Loss of revenue of ₹20.28 crore from unbilled consumers**

WBERC's Notification 55 (Clause 3.1.4) specified that bills shall be issued by the licensee at intervals of not more than ninety-nine days with monthly payment option, in respect of consumers receiving supply at low and medium voltage (L & MV). Deficiencies in raising of bills by WBSEDCL are as follows:

- (a) Due to (i) incorporation of wrong DTR<sup>33</sup> code and billing zone, and (ii) improper addresses of the consumers provided by outsourced agencies<sup>34</sup>, WBSEDCL had not raised electricity bills on 97,285 consumers (under 70 Division offices) availing of electricity since 2009 to 2016. This had resulted in loss of revenue of unbilled

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<sup>32</sup> M/s Bengal Energy Ltd and M/ s Rohit Ferro-Tech Ltd.

<sup>33</sup> Distribution Transformers

<sup>34</sup> Minutes of the monthly meeting on implementation of BRGF Scheme.

amount of ₹ 13.14 crore as of March 2016, calculated at the minimum bill amount chargeable from domestic consumers for the unbilled period.

- (b) Under BRGF<sup>35</sup> and RGGVY<sup>36</sup> - XII plan, 15,19,371 consumers were energised during 2013-16. Audit observed that 13,81,750 consumers were billed through SAP-ISU and the balance of 1,37,621 consumers remained unbilled due to non-preparation of master card data by WBSEDCL. This had resulted in loss of revenue of ₹ 7.14 crore as of March 2016.

Management stated (December 2016) that directions had been issued for verification and rectification of anomalies observed by Audit to bring those consumers under the billing cycle.

#### **2.1.8.6 Transformers installed without consumers**

Distribution Transformers (DTRs) are generally installed in different locations after considering the assessable load of the consumers of a particular location under the specified jurisdiction of the said DTR.

From Energy Audit Report of WBSEDCL it was seen that 560 DTRs with a capacity ranging from 10 KVA to 400 KVA were installed at different locations under the jurisdiction of Baruipur distribution division office. From data analysis, Audit observed that WBSEDCL had supplied 180.71 MU power (April to June 2015<sup>37</sup> and March 2016) to the said DTRs. But WBSEDCL could not realise the cost of power due to absence of registered consumers in the locations where such DTRs were installed. WBSEDCL could not generate any bill due to absence of registered consumers, even though the DTRs were receiving power from the grid. As such, there was a continuous loss of revenue of ₹ 18.57<sup>38</sup> crore per month and WBSEDCL was unable to recover the cost of power supplied which amounted to ₹ 74.27 crore<sup>39</sup> during the above mentioned four months.

Management stated (December 2016) that after audit observation, 11,300 consumers had been tagged to 337 DTRs while 218 DTRs were deleted/ deactivated as these were duplicate DTRs or classified as invalid DTRs.

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<sup>35</sup> Backward Regions Grant Fund.

<sup>36</sup> Rajiv Gandhi Grameen Vidyutikaran Yojana.

<sup>37</sup> Data for eight months *i.e.* from July 2015 to February 2016 was not available.

<sup>38</sup> The loss is calculated, considering the average monthly input of electricity in the DTR by deducting the actual AT & C loss of 32.52 *per cent* as per operational practice of WBSEDCL and multiplying by average power purchase cost.

<sup>39</sup> The loss is calculated considering the input of electricity in the DTR by deducting the actual AT & C loss of 32.52 *per cent* as per operational practice of WBSEDCL and multiplying by average power purchase cost.

#### **2.1.8.7 Deemed disconnected consumers**

WBERC (Regulation 36) specifies that if the power supply to any consumer remains disconnected continuously for a period of one hundred and eighty days where the disconnection has been effected in compliance with any of the provisions of the Act or regulations, agreement of the licensee with the consumer for supply of electricity shall be deemed to have been terminated ('deemed disconnected') with consequential effect on expiry of the said period of one hundred and eighty days. On termination of agreement, licensee shall have the right to remove the service line and other installations through which electricity is supplied to the consumer.

Audit observed that WBSEDCL had shown 3,38,878 low and medium voltage consumers, under 15 division offices, as 'deemed disconnected' consumers in its billing system, since the time limit for termination of agreement with such consumers for permanent disconnection was over. In respect of these 'deemed disconnected' consumers, analysis of data from the Divisional Computer Centre in Midnapur division office showed that 9,656 out of total 33,214 such consumers were still availing of power illegally. This was attributable to lack of proper monitoring by the management, and delay in effecting permanent disconnection by WBSEDCL. This had not only violated the above regulation of WBERC but contributed to increase in the AT&C loss. Consequently, WBSEDCL suffered a loss of revenue of ₹ 1.52 crore in Midnapur division office alone.

Management accepted (December 2016) that performance on this front was not commendable and it was taking up the issue in right earnest. It informed that direction had been issued for effecting permanent disconnection within reasonable time. The reply did not, however, specify the time frame.

#### **2.1.9 Compliance with billing and collection system with applicable tariff orders, codal provisions, laid down procedures and regulations issued by WBERC**

Billing system is the core application for revenue realisation for WBSEDCL; as such, it is imperative that business rules are mapped completely. Billing by WBSEDCL is done at three levels:

(i) Centralised Bulk billing (for supply at 11 KV, 33 KV and 132 KV with contract demand of 1,500 KVA and above) under Central Commercial Wing at WBSEDCL's Headquarters level, (ii) De-Centralised Bulk billing (for supply at 11KV, with contract demand of 50 KVA and above up to 499 KVA) under Regional offices, and (iii) Low and Medium Voltage (L&MV) (Contract demand up to 49.99 KVA billing under Distribution divisions). Apart from Central Commercial wing, 70 Divisional Computer Centres (DCCs) generate energy bills for industrial and irrigation consumers. For low and medium

domestic and commercial consumers, 100 *per cent* spot billing<sup>40</sup> system has been introduced. Revenue is collected at customer care centres, through KIOSK machines, outsourced agencies (SREI)<sup>41</sup> and Distribution Headquarters of WBSEDCL. Audit observed deficiencies in mapping of business rules leading to business risk, non-compliance with provisions of Act/ Tariff orders and consequent loss to WBSEDCL as discussed in following paragraphs.

### 2.1.9.1 Spot Billing

In order to achieve several advantages such as improvement of revenue collection efficiency, accurate generation of bill only after proper meter reading, instant delivery of bill to consumers, removing chances of non-delivery by courier agency, increased demand and transparency, better customer service and reducing AT&C loss, WBSEDCL introduced (April 2014) 100 *per cent* spot billing system in case of L&MV consumers by engaging nine agencies. Audit observed the following:

(a) As per clause 23 of Letter of Award (LOA), spot bill agencies had to take 100 *per cent* meter reading by scheduled date, record meter reading correctly and carry out blue card posting<sup>42</sup> by scheduled date. Non-compliance with these provisions would lead to penalty ranging from one *per cent* to 15 *per cent* of the payable amount of that month as mentioned in the said clause. Audit observed that the spot bill agencies had failed to take 100 *per cent* meter reading in due time, taking correct meter reading and postings in blue card in time during April 2014 to March 2016. The Agencies had failed to raise bills on the spot in cases from 1.48 *per cent* to 78 *per cent* consumers under 14 divisions and in many cases, regeneration of bills had to be done due to faulty meter reading by these agencies. In spite of this, no penalty was imposed by WBSEDCL on these nine agencies. As a result, WBSEDCL paid an extra amount of ₹ 2.37<sup>43</sup> crore to these agencies.

Management stated (December 2016) that 100 *per cent* spot billing was very difficult and stringent penalty clauses acted as a deterrent to the agencies. The reply was not tenable since according to the LOA, if spot billing exceeded 90 *per cent* but failed to achieve 100 *per cent*, one *per cent* of the amount payable to the agencies was recoverable by WBSEDCL. Yet, WBSEDCL had not deducted penalty for shortfall.

(b) As per LOA issued to different agencies for spot billing, an agency would be paid at the rate of ₹ 14 and at the rate of ₹ 13.50 per bill including printing cost of bills, for spot billing by using Spot Bill Machine (SBM) and without

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<sup>40</sup> Spot billing is a system of energy billing where the meter reading is taken through spot bill machine at the consumer premises and the bill is generated and handed over to the consumers immediately after generation of the bill on spot.

<sup>41</sup> SREI Sahaj e-village Limited, now Sahaj e-village Limited.

<sup>42</sup> Blue card is a primary record where meter reading data of the consumer is maintained manually on monthly/ quarterly basis and kept with WBSEDCL.

<sup>43</sup> Calculated as per the rate of penalty prescribed in LOA.

SBM respectively. Moreover, agencies were to take meter reading through SBM, print bills on spot, hand over these bills to the consumers and upload the metering data in the billing system.

Audit observed that during April 2014 to March 2016, 42.87 lakh meter readings had been undertaken manually, instead of SBM, by these agencies and bills raised subsequently, through Divisional Computer Centres of fifteen divisions at WBSEDCL's cost. However, at the time of passing of bills, the local management paid all the bills at the rate of ₹ 14 per bill with SBM rate instead of ₹ 13.50 without SBM. Thus, due to non-consideration of the rate without SBM and stationery cost, WBSEDCL had paid excess amount to the spot billing agency to the tune of ₹ 24.52 lakh.

Management stated (December 2016) that although no consumables or machine cost were involved in billing without SBM, the burden on the agencies was higher. Moreover, increasing liquidated damages (LD) had been imposed on these agencies for billing without SBM. The reply was factually incorrect. Audit checked 492 bills of nine agencies and found that no LD had been deducted from any of these bills before payment.

#### ***2.1.9.2 Collection of post-dated cheques against outstanding dues in violation of WBERC regulations***

WBERC Notification 52 dated April 2013 stipulated that security deposit (SD) would be deposited either in cash or an irrevocable bank guarantee or letter of credit which was not less than the estimated amount of bill to be calculated by the licensee.

However, there is no provision in the WBERC regulation/ Act for accepting post-dated cheques as settlement against outstanding dues (OSD). The business rules should have been mapped as per WBERC regulation in this regard. Audit observed that during 2015-16, WBSEDCL had collected 43 post-dated cheques valuing ₹ 13.55 crore from 14 different consumers as security against their old outstanding dues. The amounts specified in the post-dated cheques were insufficient to recover the outstanding dues. Subsequently, four cheques valued at ₹ 71.96 lakh received from two consumers against the outstanding dues of ₹ 4.48 crore, were dishonoured on presentation; consequently, WBSEDCL failed to realise the outstanding amount of ₹ 4.48 crore from these two consumers.

Management stated (December 2016) that all except two consumers in default had squared up their dues. WBSEDCL had taken legal action against these two consumers and had disconnected supply of power to them. The fact remains that acceptance of post-dated cheques were not effective security for recovery of dues, as pointed out by Audit.

#### ***2.1.9.3 Non-realisation of electricity duty of ₹ 9.82 crore***

As per Section 13 of Second Schedule of Bengal Electricity Duty Act, 1935, a newly set up industrial unit will get the exemption of electricity duty from the

energy consumed, save in respect of premises used for residential purpose, for a period of five years from the date of first commercial production.

Audit observed that during 2012-16, WBSEDCL allowed exemption to five centralised private consumers. However, the Director of Electricity Duty (DED) did not accept for allowance of exemption of electricity duty (ED) stating that WBSEDCL could not implement the benefit of exemption from payment of electricity duty unless it received the relevant order from DED. Thereafter, WBSEDCL asked the consumers to submit the Exemption Certificate issued by the DED. In response, five consumers did not produce any documents in this respect.

Thus, due to allowance of exemption from making payment of ED by violating the order of appropriate authority, Government suffered a loss of ₹ 9.82 crore.

Management stated (December 2016) that action was in process to realise the unclaimed electricity duty from the ineligible consumers.

#### **2.1.9.4 Disconnection and Reconnection Charges**

WBERC fixed (tariff order 2011-12 to 2015-16) disconnection and reconnection charges (DC&RC) for L&MV single phase consumers of ₹ 40 and ₹ 60 respectively to be recovered from consumers for disconnection/reconnection (DC/ RC). Business rules in the SAP/ ERP system should be mapped accordingly. As per tariff order, DC&RC charges should be received by WBSEDCL after physical disconnection. In this connection it was observed that:

(a) WBSEDCL had collected ₹ 4.38 crore<sup>44</sup> as DC&RC charges from consumers. Against this WBSEDCL had effected physical disconnection and reconnection of 1.64 lakh consumers<sup>45</sup> for which WBSEDCL had paid ₹ 61.87 lakh to the contractors during the years 2014-15 and 2015-16. This meant that WBSEDCL had collected DC&RC charges from consumers without physical disconnection and reconnection, due to absence of proper business rules in the billing system. Thus, due to non-adherence to the tariff order, WBSEDCL had collected an amount from the consumers to the tune of ₹ 3.76 crore (₹ 4.38 crore - ₹ 0.62 crore) in excess towards DC/ RC charges without effecting disconnection and reconnection physically.

(b) Further, in Basirhat division, Audit observed that WBSEDCL had incurred DC&RC charges to the tune of ₹ 2.48 crore. Against this, WBSEDCL realised only ₹ 1.68 crore during the year 2014-16. Thus, due to non-realisation of DC&RC charges from the disconnected consumers, WBSEDCL suffered a loss to the tune of ₹ 0.80 crore.

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<sup>44</sup> Barrackpore ₹ 1.87 crore, Behala ₹ 1.88 crore and Baruipur ₹ 0.63 crore.

<sup>45</sup> Barrackpore 77,621, Baruipur 1,985 and Behala 84,200.

Management, while accepting the audit observation, stated (December 2016) that a guideline had been circulated for raising of demand against DC&RC charges in the system, only after physical disconnection or according to regulations.

#### **2.1.10 Adequacy of IT infrastructure, IT plan, business continuity plan, IT controls, disaster plan and optimum security for achieving data completeness, accuracy and reliability**

Billing system is the core application for revenue realisation for WBSEDCL so it is imperative that adequate IT infrastructure, IT plan, business continuity plan, disaster recovery plan and IT controls are in place to achieve the objectives of computerisation and to provide seamless service to the users/consumers.

Audit found deficiencies in various<sup>46</sup> controls which affected revenue generation of WBSEDCL, as discussed in the succeeding paragraphs:

#### **General Controls**

General controls include controls over data centre operations, system software acquisition/ maintenance, access security and application system development/ maintenance. They create the environment in which application systems and application controls operate. Categories of general control include organisation and management controls (IT policies and standards), IT operational controls, physical controls (access and environment), logical access controls, acquisition/ programme change controls and business continuity/ disaster recovery controls.

##### **2.1.10.1 Lack of IT policy and IT security policy**

A well formulated and documented IT policy is essential to assess time frame, key performance indicators and cost benefit analysis for developing and integrating various functions of WBSEDCL.

Audit observed that WBSEDCL had not formulated a formal IT policy for ensuring confidentiality, integrity and availability of business data. WBSEDCL did not have an IT security policy regarding the security of IT assets including the software, hardware and databank.

Further, in absence of IT security policy, modifications made in the master data relating to the consumer services, meters, meter readings, payments, arrears, adjustment in assessments, *etc.*, by the agency to which these were outsourced, were not reviewed internally to ensure accuracy before feeding into the databank.

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<sup>46</sup> General control and application control.

It was also observed that no control procedure/ system existed to monitor the creation of new database or deletion of consumers from the master data bank making the data vulnerable to duplication/ unauthorised data.

Management stated (December 2016) that the policy was being finalised and WBSEDCL planned to undertake IT audit periodically to identify deficiencies in deployment of the policy.

#### ***2.1.10.2 Non-utilisation of software due to absence of adequate IT infrastructure***

WBSEDCL had decided (April 2010) in the twentieth meeting of BoD for implementation of a similar IT application system as covered under the scope of R-APDRP<sup>47</sup> Part-A project, in order to maintain consistency across the State. It was decided that meter data acquisition, GIS survey, IT infrastructure, *etc.* may be implemented separately, based on the existing solution prepared for R-APDRP (Part-A). With the implementation of the said IT application WBSEDCL was to derive the following benefits:

- Interest income due to timely inclusion of new consumers of billing cycle of ₹ 1.60 crore *per annum*.
- Saving in compensation of ₹ 1.68 crore *per annum* due to reduction in compensation to consumers.
- Saving of establishment cost of ₹ five crore *per annum*.
- Annual saving from power purchase on account of reduction of AT&C loss of 0.7 *per cent*.

Audit observed that WBSEDCL had placed (March 2011) LOA on M/s TCS<sup>48</sup> for appointment of ITIA (IT Implementation Agency) and SI (System Integrator) for IT application systems<sup>49</sup> for 350 non-RAPDRP customer care centres at a cost of ₹ 94.51 crore, without following the tendering process. Audit also found that WBSEDCL had placed order for the supply, delivery, installation and commissioning of IT infrastructure to M/s Ricoh India Limited in February 2014. After commissioning of required IT infrastructure, the IT application was completed and rolled out by M/s TCS only in August 2014. Audit further found that though software licenses (with six years validity) were procured from TCS in March 2011 at a cost of ₹ 50.48 crore, the said licenses could not be utilised due to non-availability of the required IT infrastructure. WBSEDCL had also paid Annual Technical Support (ATS) fees amounting to ₹ 15.60 crore from the year 2011 to 2014 to TCS, although the said services could not be utilised.

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<sup>47</sup> Restructured Accelerated Power Development and Reforms Programme.

<sup>48</sup> Tata Consultancy Services.

<sup>49</sup> As covered under the scope of R-APDRP Part-A project.

Thus, due to procurement of software license without required IT infrastructure, WBSEDCL could not derive the projected benefit of the IT application, apart from incurring an infructuous expenditure of ₹ 45.75 crore<sup>50</sup>. Moreover, WBSEDCL also lost the opportunity for interest income, saving in compensation to consumers, saving on establishment and saving of AT&C loss of ₹ 4.80 crore, ₹ 5.04 crore, ₹ 15 crore and ₹ 112.63 crore, respectively.

Management stated (December 2016) that though the software license had been delivered in March 2011, the payment of SAP licenses and ATS started from August 2014, when metering billing and collection module installation was almost complete. Moreover, the savings pointed by Audit had also been generated by the existing legacy billing system. The reply was not tenable since, WBSEDCL had paid the license fees and ATS from 2011 to 2014, according to demand raised by M/s TCS in March 2011 and from April 2011 to July 2015 respectively. Besides, WBSEDCL's justification for implementation of SAP-ISU had been to derive benefits from the new system.

### **2.1.10.3 Non-upgradation of hardware infrastructure**

IT infrastructure is required to be upgraded by the management to provide seamless services to its users.

Audit observed that the IT application for billing was initially developed with 80 lakh consumer strength. Subsequently, the consumer strength increased to 1.64 crore as on March 2016. Though the consumer strength doubled during the period, the requirement of upgradation of hardware infrastructure was not assessed by WBSEDCL.

From the minutes of the meeting for capacity planning of IT infrastructure, it was seen that due to non-upgradation of hardware infrastructure, the system slowed down significantly which adversely affected cash collection system, different report extraction systems, activity at Divisional Computer Centres (DCC) and Customer Care Centres (CCC) end and M-DAS system.

Management accepted (December 2016) the observation and added that preparation of a DPR for IT infrastructure augmentation had been taken up.

### **System Design deficiencies**

The software should be designed in a robust manner to ensure validation of input advice and output results as per the business needs of WBSEDCL to minimise the incorrect generation of bills. The various system design deficiencies observed during analysis of data are discussed below:

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<sup>50</sup> ₹ 17.87 crore for software license, ₹ 12.28 crore on GIS software and ₹ 15.60 crore as ATS.

#### **2.1.10.4 Non-realisation of security deposit (SD)**

WBERC (Regulation 52) specified that distribution licensee may require any person to furnish SD with such licensee, for an amount covering three months of estimated bills of consumption of electricity at the prevailing rates. The estimated consumption would be based on 12 months' consumption of the previous period as on 1 April of each year or estimated consumption based on his application in case of a new applicant. SD is to be taken from the beneficiaries by way of cash/ BG. Accordingly, WBSEDCL had to pay interest at the rate of six *per cent* on the SD taken from the consumers and for use as working capital.

Audit observed that the billing system did not have a provision for automatic generation of the SD payable by the consumers, based on the electricity consumption bills for three months in respect of L&MV consumers. As a result, though electricity consumption bills of 1.64 crore consumers had increased considerably, the system could not update the amount of SD payable by the consumers since 2010.

On analysis of a total of 808 centralised bulk consumers from the billing system, it was found that WBSEDCL had failed to collect the differential SD of ₹ 60.28 crore from 99 consumers as of March 2016 due to the deficiency in the system as stated above. This had resulted in blocking up of funds and loss of interest income of ₹ 6.63 crore (considering the interest at the rate of 11 *per cent per annum* thereon) as of March 2016.

Management accepted (December 2016) the observation and stated that SD adequacy involved many process and system sources, work had been taken up phase-wise.

#### **2.1.10.5 Wrong classification/ categorisation of consumers**

As per the circular of March 1994 issued by the WBSEDCL (erstwhile WBSEB), consumers such as, Hatcheries, Petrol Pumps, Printing Presses, Garages, Schools, Training Institutions, *etc.*, should be classified as "Commercial". Further, as per tariff orders issued by WBERC for the period 2011-12 and 2012-13, consumers covered under A (Cm-II), A (Cm-III), A (Cm-PU) and A (Cm-CP) would fall under L&MV commercial consumers and tariff should be charged accordingly.

From the analysis of master data of consumers, Audit found that 286 consumers, though classifiable under "commercial" consumers, had actually been classified in the system as "industrial" consumers. Due to absence of validation control, the system allowed such incorrect data entry in the Consumer Master Table. Thus, the electricity bills were raised (in 13 division offices) against the consumers at the lower tariff rate, resulting in loss of revenue of ₹ 1.15 crore.

Further, as per clause 7.2 of the said tariff orders, consumers having contract demand from 50 KVA to 125 KVA were to be classified as L&MV bulk consumer categories and were to be treated as decentralised bulk consumers

under the Regional offices. As per tariff of WBERC, decentralised bulk consumers were required to pay higher rate of tariff during the period from 2011-12 to 2015-16.

From the analysis of master data of consumers, Audit found that 254 consumers, having contract demand in excess of 50 KVA, were categorised as L&MV consumers instead of L&MV bulk consumers' category. The billing system did not have a provision for automatic categorisation/ updation of consumers based on the contract demand and automatically converted them as decentralised bulk consumers under the Regional Offices. Consequently, the electricity bills were raised against the consumers at the lower tariff rate, resulting in loss of revenue of ₹ 7.07 crore during the period 2011-16.

Management accepted (December 2016) the observation and stated that rectification process had been initiated.

### **Mapping of business rules**

WBERC fixes the tariff rate from time to time on the basis of proposal submitted by WBSSEDCL for realisation of revenue through raising bills on consumption of electricity by consumers. Accordingly, business rules should be mapped in the billing system. The deficiencies observed, where either the Act/ Rules/ Regulations/ Policies were not adhered to or not appropriately incorporated in the system, are discussed below:

#### ***2.1.10.6 Non-realisation of arrears of energy bill from disconnected consumers***

Section 45 of the Act stipulates that (a) the charges for electricity supplied by a licensee shall be (i) fixed in accordance with the methods and the principle as may be specified by a concerned state commission, (ii) published in such manner as to give adequate publicity for such charges and price, and (b) the charges fixed by the distribution licensee shall be in accordance with the provisions of this Act and the regulation made in this behalf by the concerned state commission.

Audit observed that WBSSEDCL had disconnected supply of 16 bulk consumers between November 2011 and January 2015 due to non-payment of monthly energy bills in time. Audit found that tariff order for the period 2011-12 and 2014-15 was issued by WBERC in December 2012 and March 2015, respectively. Due to delay in issuing of tariff order by WBERC, electricity bills of the consumers for the period from April 2011 to December 2012 and April 2014 to March 2015 were raised and realised at the pre-revised lower tariff rate of 2010-11 and 2013-14 respectively.

After the issue of the tariff order for the said period, the revised tariff rate had been incorporated in the system and the arrear electricity charges for the live consumers were raised according to the revised tariff rate.

Audit observed that the billing system did not have a provision for generation of arrear electricity bills at the revised tariff rate for the disconnected consumers. As a result, WBSEDCL suffered a loss of revenue of ₹ 6.20 crore due to non-raising/ realisation of arrear of electricity bills<sup>51</sup> from the disconnected consumers.

Management stated (December 2016) that action had been initiated to lodge claims on these disconnected consumers.

#### ***2.1.10.7 Non-inclusion of demand charge as per regulation***

WBERC (Regulation 48) specified that in case where no consumption of energy has taken place for any reasons whatsoever, including disconnection of supply due to fault on the part of the consumer but excluding instances of interruption in supply due to failure on the part of the licensee, the fixed charge or demand charge of a consumer, as the case may be, shall be calculated on the basis of the contract demand.

Audit observed that the business rules relating to demand charge had not been correctly mapped into the billing system. WBSEDCL raised demand charges on eight centralised industrial bulk consumers on the basis of 85 *per cent* of contract load, instead of 100 *per cent*. Due to incorrect mapping of the business rules in the billing system, WBSEDCL had suffered a loss of revenue of ₹ 37.08 lakh.

Management stated (December 2016) that action was underway to claim and realise the demand charges.

#### ***2.1.10.8 Allowance of power interruption benefit without proper data of power interruption***

WBERC (Regulation 46) specified that for any unplanned interruption except those arising out of unforeseen contingencies like natural calamities, grid failures, automatic under-frequency tripping and other *force majeure* events beyond the control of any licensee, the licensee shall, on receipt of a complaint from a consumer, restore electric supply to the consumer as per the prescribed time frame to be reckoned from the time and date of receipt of the complaint. The licensee shall adjust the interruption benefit with fixed demand charges payable by the consumers. In case of unforeseen contingencies, as stated above, no interruption benefits were to be passed on to the consumers. Thus, based on consumer complaints, the licensee is required to segregate the unplanned interruptions into those not eligible *i.e.*, unforeseen contingencies and those eligible for interruption benefits to feed such data in the billing system for allowing power interruption benefit to the consumers.

Audit observed that the billing system did not have provision for capturing data of controllable power interruption on the basis of which power interruption benefit could be allowed to the consumers. Meters installed at the

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<sup>51</sup> Arrears of electricity bill consisting of only energy charge and demand charge.

premises of the consumers were capable of capturing the duration of power interruption in case of power failure, which may be caused either due to controllable or uncontrollable factors. The billing system captured the power interruption data once the meter reading data was downloaded in the billing system. The billing system had been designed to automatically allow power interruption benefit to the consumer, based on power interruption data maintained in the system.

During 2012-13 to 2015-16 WBSEDCL allowed gross power interruption benefit of ₹ 10.05 crore without analysing the controllable and uncontrollable factors through system.

Management stated (December 2016) that the system treated any breakdown/ planned shutdown/ scheduled maintenance, *etc.*, as interruption and accordingly, allowed power interruption benefit. Presently, however, the benefit of power interruption was being allowed to consumers on the basis of data maintained at sites. The reply is not tenable since, WBSEDCL had not designed the system to segregate the unplanned interruptions into unforeseen contingencies and others.

#### **2.1.10.9 Wrong categorisation of tariff class**

As per tariff order for the year 2014-15 issued by WBERC, consumers, having contract demand from 126 KVA to 499 KVA (supply voltage 11 KV), were to be categorised under E(B)/ E(BT), E(C)/ E(CT) and demand charge would be ₹ 320/ KVA/ month instead of ₹ 317/ KVA /month.

Analysis of data of decentralised bulk consumers showed that 35 out of 2,831 live decentralised bulk consumers (having contract demand from 126 KVA to 499 KVA) were categorised under B-IDI/ B-IDIT, B-IDC/ B-IDCT tariff class, instead of E(B)/ E(BT), E(C)/ E(CT) in the system. It was found during test check of 15 consumers out of 35 consumers that tariff was charged at a lower rate, which led to a loss of revenue of ₹ 0.69 crore during the period 2014-16.

Management accepted (December 2016) the audit observations and stated that directions had been given to claim arrear energy bills for wrong categorisation of tariff class and keep strict vigil in inserting the proper tariff class.

#### **2.1.10.10 Consumer satisfaction**

For better billing and improved customer interfaces, WBSEDCL had migrated (August 2014) the metering, billing and collection processes and functions to SAP-ISU, an industry specific solution for utilities. One of the key elements of introduction of SAP-ISU was to protect the interest of the consumers and to ensure better quality of service to them.

Audit observed that the consumers often faced problems relating to improper meter reading, wrong billing, service connection related problems and defective meter replacement *etc.*, as stated above.

Management accepted (December 2016) the audit observations and added that programme of supervisory meter reading had been taken up to improve quality of meter reading and customer service.

#### 2.1.10.11 Redressal of grievances

WBERC (January 2006) had specified the mode and time frame for redressal of grievances in pursuance of the Act. The Standards of Performance (June 2004/ May 2010) prescribed time limit for rendering services to the consumers and compensation payable for not adhering to the same.

WBSEDCL had also created (January 2009) Customer Relation Management (CRM) Cell to look into the grievances of consumers and their redressal. To enable the compilation of complaints for assessing the performance on this account, separate registers were maintained by WBSEDCL. Detailed list of consumers' complaints redressed by CRM Cell for the period 2011-12 to 2015-16 is given at **Table 2.1.4**:

**Table 2.1.4 : Details of consumers' complaints redressed during 2011-16**

Sl. No.	Particulars	2011-12	2012-13	2013-14	2014-15	2015-16
1	Total complaints received (Nos.)	516	817	723	799	761
2	Complaints redressed within time (Nos.)	213	309	297	213	392
3	Complaints redressed beyond time (Nos.)	303	508	426	586	369
4	Percentage of complaints redressed beyond time	59	62	59	73	48
5	Compensation paid/ payable, if any, to the consumers in terms of orders of Ld Ombudsman (₹ in crore)	1.27	2.02	1.74	0.84	0.13

The table shows that WBSEDCL had paid/ liable to pay ₹ six crore as compensation to the consumers for non-compliance with WBERC's regulation.

Management stated (December 2016) that writ petitions had been filed before different courts contesting 359 compensation orders aggregating to ₹ 3.56 crore.

#### Conclusion

WBSEDCL had no plans/ targets to reduce AT&C losses. Due to delay in raising of bills, non-realisation of outstanding dues, unbilled consumers, unauthorised use of electricity by 'deemed disconnected' consumers and transformers having unregistered consumers, WBSEDCL suffered loss of revenue of ₹ 175.85 crore. Moreover, non-adherence to regulations of WBERC and violations of the Electricity Act, 2003 led to continued AT&C losses. Cases of theft of power have been increasing steeply over the years, contributing to substantial losses. Failure of spot billing system,

non-realisation of electricity dues, acceptance of post-dated cheques against accumulated dues and improper payment of disconnection/ reconnection charges led to inefficiencies in collection and loss of revenue. WBSSEDCL incurred infructuous expenditure of ₹ 45.75 crore as it had procured software licenses without required IT infrastructure. In the absence of automatic categorisation/ updation of consumers' database on the basis of nature of connection, contract demand, *etc.*, in its IT billing system, WBSSEDCL suffered loss of revenue of ₹ 8.22 crore. Delay in implementation of billing software and lacunae in the system led to non-achievement of the projected benefits to WBSSEDCL as well as to the consumers as a whole.

### **Recommendations**

WBSSEDCL may:

- Formulate policy and set targets for reduction of AT&C losses to achieve the norms fixed by WBERC.
- Make an assessment of reasons for high AT&C losses and put in place a plan to address these issues to reduce AT & C losses as well as to maximise its revenue.
- Maximise meter reading done by Spot Billing Machine to realise the revenue in due time.
- Review and incorporate, where required, appropriate validation of inputs in the existing software in conformity to its business needs for minimising the incorrect generation of bills.
- Institute a system to incorporate the current and relevant orders/ tariffs into the business rules in the software whenever these are modified/ changed by WBERC/ Acts/ Rules.

## West Bengal Electronics Industry Development Corporation Limited

### 2.2 Management of physical infrastructure and skill augmentation for IT Sector

#### Executive Summary

##### *Introduction*

West Bengal Electronics Industry Development Corporation Limited (WBEIDCL) was incorporated (February 1974) with the main objectives of (i) developing electronics and allied industries through establishment of manufacturing, research and development activities, and (ii) facilitating development of information technology in West Bengal.

Income from management of infrastructure decreased from ₹ 18.20 crore in 2011-12 to ₹ 16.99 crore in 2015-16. The reasons were application of differential rates of rental/ lease premium for allotments of plots and modules, non-revision of rent, recovery of service charges at different rates for similar/comparable services, etc. Further, income from skill augmentation increased from ₹ 0.19 crore in 2011-12 to ₹ 0.86 crore in 2015-16 in respect of execution of centrally sponsored schemes. WBEIDCL was facing serious problems in recovering dues worth ₹ 14.72 crore from GoWB on sale of IT goods to various GoWB entities.

##### *Management of infrastructural facilities*

WBEIDCL had foregone revenue of ₹ 4.90 crore as a result of vacancy of two to 100 per cent in the 10 operational IT parks, set up prior to April 2011. In addition, it was also foregoing a recurring amount of ₹ 13.46 lakh per month, since March 2016. Further, out of five new IT parks completed by January 2016, three were still vacant. Another three IT Parks were still to be fully constructed.

##### *Process of allotment of space, fixation of rents & rates and collection thereof*

WBEIDCL, in case of 72 allottees, occupying 1.47 lakh sft of rental spaces in eight IT parks, were under-charged/ did not charge security deposit of ₹ 0.19 crore. Despite having an operational ERP system, WBEIDCL, failed to execute/ renew lease/ rental agreements in case of 66 allottees with outstanding rentals of ₹ 1.64 crore. It had allotted plots on long term lease at differential rates of lease premium, leading to loss of ground rent of ₹ 1.84 crore since March 2016. Allotment of modules/ spaces at concessional rent to non-STPI registered units on short term rental led to loss of rent of ₹ 0.21 crore. Non-revision of rental rates at Taratala Industrial Estate (TIE) resulted to loss of rent of ₹ 1.54 crore. Delayed revision of transfer fees resulted in loss of ₹ 1.94 crore. WBEIDCL had to incur loss of revenue of ₹ 3.33 crore towards rent as of March 2016 by not raising invoices on

defaulting allottees. The chances of collection of dues of ₹ 4.10 crore from 67 allottees, who had either surrendered their modules or had been evicted by WBEIDCL between 2012-13 and 2015-16 were remote.

### ***Skill Augmentation***

WBEIDCL executed six GoI schemes of IT training during 2013-14 to 2015-16. The selection of candidates was not efficiently monitored by WBEIDCL and lacked transparency, resulting in expenditure of ₹ 4.75 crore on 3,913 ineligible candidates. Further, in violation of the scheme norms, WBEIDCL had transferred to its training partner the responsibility of disbursing the stipend to trainees. WBEIDCL did not inspect the training locations regularly to monitor progress and follow up on their outcome.

### ***Conclusion***

WBEIDCL could not ensure complete occupancy in seven out of its 10 IT parks. It did not uniformly collect the security deposits in accordance with its policy. It had allowed concessional rentals to non-STPI units (occupying 8,708 sft) which had resulted in loss of revenue. Further, belated revision of transfer fees in deviation of government directives had led to loss of revenue. Non-invoicing on defaulting allottees had resulted in forgoing of legitimate claims. WBEIDCL had failed in its role of effectively providing training in information technology to students who applied to its training programmes. There were inadequacies and irregularities in the selection process. WBEIDCL did not monitor the disbursement of stipend to eligible candidates. Monitoring of the training programmes was weak and the post-training follow up was non-existent.

### ***Recommendations***

WBEIDCL may initiate an annual review of the rates for rent and service charges and revise them, keeping in view the need to ensure occupancy of the constructed IT parks. It may revise its policy of not drawing invoices on defaulting allottees to enforce its claims, comply with statutes and also improve internal check system for raising of invoices. Besides, it may ensure that the selection of candidates for training is as per government guidelines with regard to eligibility criteria, maintain necessary records and disburse stipends directly to students.

### ***2.2.1 Introduction***

West Bengal Electronics Industry Development Corporation Limited (WBEIDCL) was incorporated (February 1974) as a subsidiary of the West Bengal Industrial Development Corporation Limited (WBIDCL), a Government Company. Its main objectives are to (i) develop electronics and allied industries through establishment of manufacturing, research and development activities, and (ii) to facilitate development of information technology in West Bengal. Since August 1981, Government of West Bengal (GoWB) has been investing in WBEIDCL directly, and it has ceased to be a subsidiary of WBIDCL.

WBEIDCL is presently engaged in setting up and providing IT infrastructure<sup>52</sup> including office space-on rent, boosting facilities for information technology (IT) and IT enabled service (ITeS) industries, as well as providing internet services and imparting IT training. WBEIDCL also assists GoWB in e-governance projects<sup>53</sup>. Besides, it supplies, maintains and repairs medical equipment at Government hospitals and health care centres. Further, WBEIDCL is the nodal agency of the State Government for development of IT industry in the State.

As on 31 March 2016, WBEIDCL had 145.55 acres of land and 5.22 lakh square feet (sft) of built up space ready for allotment and 134 employees<sup>54</sup> for managing day to day activities of WBEIDCL. Moreover, it had seven<sup>55</sup> wholly owned subsidiaries, of which two *viz.*, Webel Technology Limited (WTL) and Webel Informatics Limited (WIL) were associated with the business of IT products and IT learning.

Performance Audit on the working of WBEIDCL was conducted earlier and results thereof were incorporated in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial), Government of West Bengal (GoWB). The Report was not selected for discussion by the Committee on Public Undertakings (COPU).

### 2.2.2 Organisational Structure

WBEIDCL, under the aegis of the Department of Information Technology and Electronics (DITE), GoWB, is managed by a Board of Directors headed by a Chairman and seven other Directors, all nominated by the State Government. Managing Director (MD), as Chief Executive Officer, is assisted by Executive Director (Finance), General Manager (Finance), General Manager (Technical), Company Secretary and Public Information Officer in managing day to day operations.

### 2.2.3 Audit objectives

In order to have a well-planned and effective strategy for development of IT and ITeS industry, West Bengal Policy on Information and Communication Technology, 2012 (ICT Policy 2012) was introduced in September 2012. The State's vision is to become one of the leading States in India in the IT, ITeS, electronics system design and manufacturing sectors, enabling the State to transform itself into a knowledge-driven welfare society with extensive use of IT and ITeS in governance as well as in the daily lives of the people of the State by 2020.

<sup>52</sup> In the form of developed land, module space *i.e.* constructed premises, Standard Design Factories (SDF), plug and play set-ups with hardware and LAN connectivity.

<sup>53</sup> West Bengal State Wide Area Network, State Data Centre, *etc.*

<sup>54</sup> Information Technology Engineers.

<sup>55</sup> Webel Informatics Limited (WIL), Webel Technology Limited (WTL), Webel Electro Communication Systems Limited, Webel Venture Capital Limited, Webel Mediatronics Limited, Webel Consumer Electronics Limited and Webel Electro Optics Limited.

The strategies for attaining the vision of ICT Policy 2012 of GoWB *inter alia* included reorganisation of WBEIDCL so that it concentrated on developing technical competencies, especially in e-Governance, besides providing incubation infrastructure for the Small and Medium Enterprises (SME) sector, both in software and hardware.

This Performance Audit was conducted to ascertain whether WBEIDCL had been efficiently, economically and effectively:

- Managing infrastructure facilities to attract IT/ ITeS/ electronics players for SMEs at existing hubs including –
  - Utilising infrastructure,
  - Invoicing for ground rents, service charges, transfer fees and permission fees for land utilised, and
- Enhancing supply by augmentation of skills suitable for IT, ITeS and electronic sectors as well as catering to GoI schemes for skill development and vocational training courses in non-IT sector.

#### **2.2.4 Scope and Methodology of Audit**

The Performance Audit, conducted between April to August 2016, covered activities of WBEIDCL in managing physical infrastructure and skill augmentation during 2011-12 to 2015-16.

Audit methodology involved (i) scrutiny of records related to implementation of projects/ schemes, progress reports sent to GoWB/ GoI, (ii) review of all 10 operational IT parks and the 11 upcoming IT parks (iii) review of utilisation of funds received by WBEIDCL from GoWB and GoI (iv) review of Government directives, minutes of meeting of the Board of Directors (BoD) and Audit committee along with records (v) examination of financial records (vi) issuing audit enquiry/ observations and (vii) interaction with the management.

An Entry Conference was held on 21 March 2016 wherein audit objectives, audit criteria, scope and methodology of the Performance Audit were discussed with the management of WBEIDCL and DITE. An Exit Conference was held on 15 November 2016 to discuss the audit observations, WBEIDCL's responses, audit conclusions and recommendations. It was attended by the Managing Director of WBEIDCL and Commissioner, DITE, GoWB as well as senior management of WBEIDCL.

#### **2.2.5 Audit criteria**

Audit criteria adopted for assessing achievement of audit objectives have been derived from the following:

- Memorandum and Articles of Association, Standard Operating Procedures of WBEIDCL;
- ICT Policy 2012 of GoWB;

- Schemes for skill development of GoI; and
- Management Information System (MIS) of WBEIDCL, Government orders/ circulars.

### 2.2.6 Acknowledgement

Audit acknowledges the co-operation of WBEIDCL and Department of Information Technology and Electronics (DITE), Government of West Bengal (GoWB) in providing the necessary records and information in connection with the conduct of this Performance Audit.

### Audit Findings

The audit findings are discussed in the succeeding paragraphs.

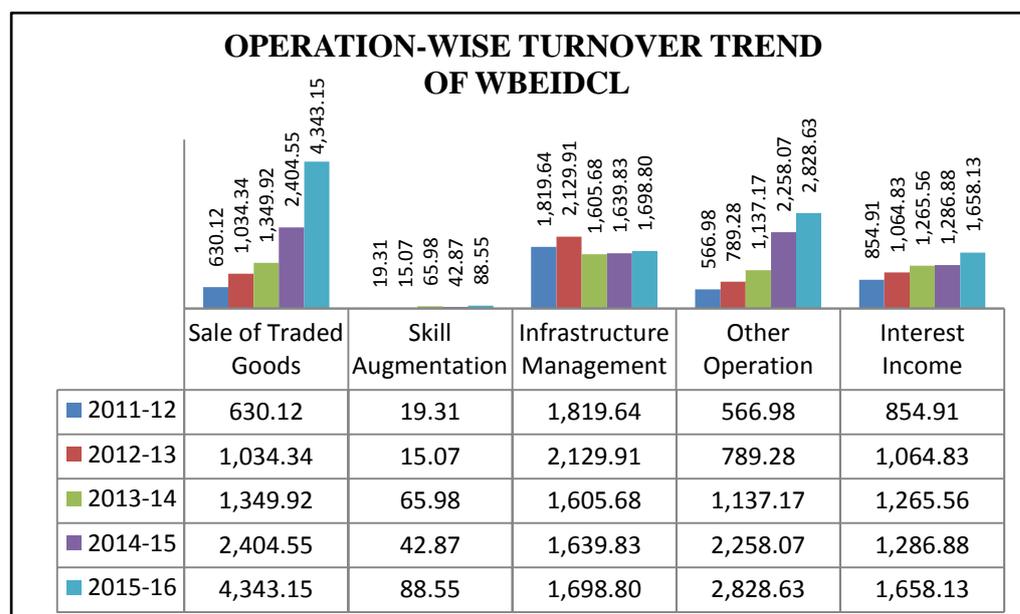
### 2.2.7 Operational and Financial Performance

WBEIDCL generates funds from its operational activities, interest from investments and receipts of funds from GoWB as long term borrowings and equity. It utilises its funds mainly for creation of infrastructure, loans to subsidiaries and repayment of loans.

#### 2.2.7.1 Operational performance

The trend of operational performance of WBEIDCL for the period 2011-16 may be observed from **Figure 2.2.1**.

**Figure 2.2.1 Operation-wise turnover trend from 2011-12 to 2015-16**



(Source: Annual accounts of WBEIDCL)

Income from management of infrastructure decreased from ₹ 18.20 crore in 2011-12 to ₹ 16.99 crore in 2015-16. The reasons were application of differential rates of rental/ lease premium for allotments of plots and modules,

non-revision of rent, recovery of service charges at different rates for similar/comparable services, etc., as discussed in Paragraphs 2.2.8 to 2.2.10. Further, income from skill augmentation increased from ₹ 0.19 crore in 2011-12 to ₹ 0.86 crore in 2015-16 in respect of execution of centrally sponsored schemes as discussed in Paragraphs 2.2.11 to 2.2.13. Further, sale of traded goods also increased from ₹ 6.30 crore in 2011-12 to ₹ 43.43 crore in 2015-16 due to rising demand. However, audit observed delays in collection of dues as discussed in Paragraph 2.2.7.3.

### 2.2.7.2 Financial performance

It was observed that the net worth of WBEIDCL increased by 45 per cent from ₹ 116.14 crore in 2011-12 to ₹ 168.38 crore in 2015-16. In the same period, capital employed rose by 36 per cent from ₹ 142.38 crore to ₹ 193.53 crore. During the period 2011-16, the average return on capital employed was three per cent only against cost of debt capital of nine<sup>56</sup> per cent. This indicated that capital of WBEIDCL was not being utilised efficiently as the return was not commensurate with the borrowing costs incurred by WBEIDCL during 2011-12 to 2015-16.

WBEIDCL did not reply to this observation.

### 2.2.7.3 Increased borrowings due to poor recovery of dues

WBEIDCL provided infrastructure business support to GoWB and other entities through supply of hardware and software (through BD cell<sup>57</sup>). WBEIDCL's total turnover from trading activities in 2015-16 was ₹ 43.43 crore, which was 40.91 per cent of its total turnover in that year.

It was observed that WBEIDCL was facing serious problems in respect of collection of its dues from customers, most of which were GoWB Departments; these Departments accounted for 84 per cent of its sales revenue from these activities over the entire period covered by Audit.

Audit observed that the total outstanding dues of WBEIDCL from GoWB amounted to ₹ 14.72 crore as on March 2016. The age-wise break up is given below in Table 2.2.1.

**Table 2.2.1: Age-wise dues from trading activity**

Period	Amount outstanding (₹ in crore)	Percentage of total
Less than one year	8.95	60.82
From one year to two years	3.73	25.32
More than two years	2.04	13.86
<b>Total</b>	<b>14.72</b>	<b>100.00</b>

(Source: Records of WBEIDCL)

<sup>56</sup> Between 2011-12 and 2015-16, rate of interest on borrowed capital ranged from nine to eleven and half per cent.

<sup>57</sup> Business Development Cell.

From **Table 2.2.1**, it can be seen that 39.18 *per cent* of its receivables from the GoWB remaining outstanding for more than a year was contributing to the shortage of its working capital, forcing WBEIDCL to borrow and thereby raising its debt-equity ratio.

Government did not respond to the audit observations despite repeated reminders.

### Management of infrastructural facilities

WBEIDCL developed infrastructure for IT/ ITeS units in the State in line with directives of GoWB and funded by the State Government. Prior to April 2011, WBEIDCL had set up eight IT parks<sup>58</sup> in Kolkata, one each at Siliguri and Durgapur. With a view further to spreading IT activities across the State, including Tier-II and Tier-III locations<sup>59</sup>, GoWB had entrusted (September 2013) development of 11 IT parks and two electronic manufacturing clusters in 12<sup>60</sup> districts to WBEIDCL. All of these were in various stages of construction, except five IT parks (in four districts) of which the construction was completed (August 2015) but which had yet to be made operational. As a result, as of March 2016, WBEIDCL operated only 10 IT parks with total built up area of 5.22 lakh square feet (sft) which were completed prior to 2011. In addition to the above, WBEIDCL, leased<sup>61</sup> 52.74 lakh sft of plots in Kolkata to IT and ITeS entrepreneurs. The summary of infrastructural facilities created by WBEIDCL (March 2016) and the status of upcoming projects is given in *Annexure 3*.

#### 2.2.8 Operational IT parks

##### 2.2.8.1 Vacancy in IT parks

Audit scrutinised all the 10 operational parks and observed that vacancy in these operational IT parks ranged between two and 100 *per cent* as of March 2016, as shown in Part-(A) of *Annexure 3*. The vacancy in such IT parks, ranged from seven to 51 months during 2011-12 to 2015-16. It was further observed that the entire space in one IT park<sup>62</sup> remained totally vacant (March 2016) due to absence of sale-purchase agreement relating to acquisition of the space. Further, the IT park in its HQs remained 50 *per cent* vacant even though it was located in a prime commercial area (Sector V, Salt Lake).

<sup>58</sup> Including one Standard Design Factory (SDF) and one incubation centre.

<sup>59</sup> The ICT Policy 2012 of GoWB defines Tier-II and Tier-III cities located outside the greater Kolkata area {Para 3.1(b)}.

<sup>60</sup> Darjeeling, Bardhaman, Bankura, 24 Parganas (N), Medinapore (E), Midnapore (W), Birbhum, Purulia, Malda, Howrah, Nadia and 24 Parganas (S).

<sup>61</sup> These were leased to WBEIDCL by the Urban Development Department.

<sup>62</sup> West Bengal Biotek Park.

### 2.2.8.2 Revenue forgone due to lack of occupancy

It was further seen that WBEIDCL had foregone revenue<sup>63</sup> of ₹ 4.90 crore as a result of this vacancy in the 10 operational IT parks, all of which were completed by 2011. In addition to revenue forgone, it was also foregoing a recurring amount of ₹ 13.46 lakh per month, from various time periods beginning from April 2016, towards rental income, as a result of this vacancy.

### 2.2.9 Upcoming IT parks- Delays in operationalising IT parks

WBEIDCL had been entrusted by DITE, GoWB (September 2013) with the development of 11 IT parks and two electronic manufacturing clusters in 12 districts of the State to be completed during by December 2015. Audit scrutinised all the proposed IT parks/ manufacturing clusters and with regard to these 11 IT parks/ two manufacturing clusters, Audit observed that five<sup>64</sup> IT parks were completed in August 2015/ January 2016 with delays ranging from nine to 18 months<sup>65</sup>. Three of these IT parks, situated in Tier-II/ III locations, were still vacant (October 2016). The IT park in Rajarhat was located in prime area (near Sector V, Salt Lake) but was also occupied to the extent of 58<sup>66</sup> per cent, the vacancy loss (42 per cent of total allotable area) per month amounted to ₹ 4.86 lakh, since September 2015. The IT Park located at Durgapur was completed in August 2015 but only occupied by October 2016. Three IT Parks are still to be fully constructed. No preliminary work for development of three remaining IT parks and the two electronic manufacturing clusters was undertaken as of March 2016.

Management in its reply stated (December 2016) that the vacancy was mainly due to lack of demand due to poor market conditions rather than any administrative slackness. The fact remains that the IT sector was a thrust area for the Government and poor market conditions cited by WBEIDCL could not have been a factor in low utilisation as, according to GoWB (2016), the IT sector had grown by 79 per cent since 2010-11. Further, a survey report by the Department showed that 298 companies were working in Tier-II and Tier-III districts. Despite this, WBEIDCL was unable to attract entrepreneurs to ensure occupancy. Evidently, WBEIDCL needed to make further efforts to utilise the space already built by it.

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<sup>63</sup> Calculated on the basis of period and quantum of vacancy at applicable rental rates.

<sup>64</sup> Durgapur, Asansol, Barjora, Purulia and Rajarhat.

<sup>65</sup> Less than one year: two IT parks; more than one year: three IT parks.

<sup>66</sup> Out of total area of 42,159 sft, only 24,806 sft was occupied.

### **2.2.9.1 Instance of a non-viable IT park**

Audit checked the records relating to the Kharagpur IT Park which was scheduled to be completed in October 2014 at an estimated cost of ₹ 18.43 crore. The DPR stated (February 2012) that the chances of growth in IT and ITeS were low, as IIT Kharagpur had already set up (1986) an IT park in the location. Moreover, another IT park set up in 2004 by STPI had failed to attract potential IT entrepreneurs and was lying vacant. In such a situation the feasibility of the project was doubtful. However, the project was in progress and cost of ₹ 11.29 crore has been incurred as of January 2016.

Management accepted (October 2016) that although there were low chances for growth in IT/ ITeS in this IT park, yet, this was constructed with the approval of GoWB (September 2013). The reply needs to be seen in view of the fact that six already completed IT parks were still lying largely vacant.

The Government, despite repeated reminders, did not respond to the Audit observation.

### **2.2.10 Processes of allotment of space, fixation of rents & rates and collection thereof**

WBEIDCL had laid down (October 2014) Standard Operating Procedure (SOP) for streamlining the flow of activities related to monitoring of modules<sup>67</sup> and land allotted to the entrepreneurs. It *inter alia* included (a) allotment of space (b) realisation of security deposit (c) execution and renewal of rental/ lease and license agreement (d) management of allotment, fixation of rates/ charges and raising bills/ invoices (e) collection of dues and (f) inspection of plots allotted to the occupants.

Audit observations relating to management of physical infrastructure and its monitoring by WBEIDCL are discussed in succeeding paragraphs:

#### **2.2.10.1 Short/ non-realisation of security deposit**

WBEIDCL, after allotment of space, collected security deposit equivalent to one month's rent and service charge for license<sup>68</sup> agreements for a period of 11 months, while three months' rent and one month's service charge was collected as security deposit for rental agreement of 36 months.

Audit observed that 72 allottees, occupying 1.47 lakh sft of rental space in eight IT parks were under-charged/ not charged security deposit of ₹ 19.32 lakh. Further, scrutiny of overdue balances as on March 2016 showed that total outstanding rentals from these 72 allottees stood at ₹ 79.38 lakh, which could have been partially recovered if commensurate security deposit had been collected and duly adjusted thereagainst.

<sup>67</sup> Built-up space with internal fitments, generally ready to move into.

<sup>68</sup> As defined under Section 52 of the Indian Easements Act, 1882.

Management stated (December 2016) that the security deposits are now being collected as per existing norms.

### **2.2.10.2 Non-execution and non-renewal of lease/ license agreements**

WBEIDCL, as per the SOP, is required to execute lease agreement simultaneously with issue of final allotment letter to the allottees.

(i) Audit observed that no agreement was executed with 42 allottees occupying 0.57 lakh sft in six IT parks and rentals were fixed on the basis of final letter of allotment. Further, these 42 allottees were allowed to occupy spaces without any agreement for periods ranging from one to five years. Outstanding rental of ₹ 1.18 crore was receivable from these allottees as of March 2016.

(ii) Scrutiny of ERP system<sup>69</sup> disclosed that WBEIDCL did not renew agreements, for periods ranging from 29 days to 731 days, with 24 allottees and these agreements lapsed. It also did not take any action for eviction, though outstanding rentals of ₹ 46 lakh was receivable from these allottees as of March 2016. As such, there was no monitoring mechanism in WBEIDCL, despite presence of ERP system allowing automated alerts for those agreements which were going to expire.

While accepting the observation, Management stated (December 2016) that it was working on updation of the agreement related records and completion of the pending cases.

### **2.2.10.3 Management of allotments**

WBEIDCL allotted plots in Sector V, Salt Lake, Kolkata or built-up spaces/modules in its IT parks on long term leases and short term rentals. The deficiencies in management of allotment of spaces/ plots by WBEIDCL, as observed in audit, are given in following paragraphs:

#### **(a) Allotment of plots on long term lease at differential rates of lease premium leading to loss of ground rent**

As on March 2016, a total super-built up area of 52.74 lakh sft of land was leased to 119 allottees for 90 years each. The land was allotted (1986-87 to 2008-09) on payment of lease premium<sup>70</sup> (LP) and annual ground rent at 0.25 per cent of LP over the period under lease.

Audit observed that WBEIDCL had allotted (1986-88) these plots at a uniform rate of ₹ 22.96 per sft. Since 1988-89, WBEIDCL had started allotting plots at different rates of LP in the same financial year (except in 1996-97) at the same location, for reasons not on record. These rates varied from ₹ 22.96 to

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<sup>69</sup> Enterprise Resources Planning.

<sup>70</sup> Lease premium was the consideration payable to WBEIDCL by the allottees for allotment of the plots of land.

₹ 84.94 per sft., and ₹ 75.76 to ₹ 84.94 per sft., in 1988-89 and 2003-04, respectively. Audit further observed that this was due to the fact that WBEIDCL had not framed a pricing policy for fixation of LP for allotment of plots/ land in same locations. Due to allotment of plots at differential rates in the same year, WBEIDCL had short-realised<sup>71</sup> LP of ₹ 10.81 crore. Moreover, as annual ground rent was 0.25 *per cent* of LP, WBEIDCL incurred loss of ₹ 0.59 crore towards annual ground rent up to March 2016 with further loss of ₹ 1.84 crore thereafter, due to under charging of LP.

Audit analysed that WBEIDCL could have substantially reduced its borrowings and interest cost of ₹ 4.86<sup>72</sup> crore during 2011-12 to 2015-16 if it had framed a land pricing policy which would have enabled it to realise standard rates of LP.

WBEIDCL did not address the issue of variations in LP in the same financial year and in the same locations.

**(b) Allotment of modules/ spaces at concessional rent to non-STPI registered units on short term rental**

WBEIDCL had offered (January 2012) the benefit of lower rentals on modules at SDF to IT and ITeS units registered under GoI. Based on its adopted (January 2012) rate policy<sup>73</sup>, it charged ₹ 21/ sft/ month from STPI registered units and ₹ 26/ sft/ month from non-STPI registered units.

Audit observed that during January 2012 to March 2016, WBEIDCL, deviating from its own policy, had allowed concessional rentals to nine non-STPI units (occupying 8,708 sft) for reasons not on record. This resulted in loss of revenue of ₹ 21.11 lakh.

While accepting the observation, Management stated (December 2016) that at the time of allotment, these units were STPI-registered but had subsequently surrendered their registration. Further, WBEIDCL added that it was in the process of re-fixing rental rates for these units.

**2.2.10.4 Fixation of rentals and charges**

Rental income constituted 25 *per cent* of the total income from infrastructure, skill augmentation and procurement. Deficiencies in fixation of rentals and charges by WBEIDCL as observed in audit are given below:

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<sup>71</sup> Calculated as area multiplied by difference between the LP rate actually charged and highest rate realised by WBEIDCL in the same year.

<sup>72</sup> ₹ 10.81 crore at the rate of nine *per cent* for five years (2011-12 to 2015-16).

<sup>73</sup> Rental rates for allotment of rental spaces in the WBEIDCL IT parks.

**(a) Non-revision of rental rates at Taratala Industrial Estate (TIE)**

WBEIDCL had revised (January 2012) applicable rentals at nine IT parks except at TIE<sup>74</sup>. Two spaces in the same location were available at Taratala-TIE and Taratala HRDC<sup>75</sup>.

It was seen that WBEIDCL charged differential rental rates varying from ₹ 4/ sft to ₹ 19.83/ sft for open spaces at TIE. Further, WBEIDCL had fixed minimum rent of ₹ 14/ sft for open spaces at Taratala HRDC, although TIE and Taratala HRDC were located in the same premises. Thus, based on effective occupancy, WBEIDCL had to incur loss of ₹ 1.54 crore from January 2012 to March 2016 with recurring loss of ₹ 3.47 lakh<sup>76</sup> per month since April 2016. Reason for non-revision of rental charges at TIE was refusal by the tenants to accept any hike.

Management accepted (December 2016) the audit observation and stated that revision of rates in the near future was under consideration.

**(b) Non-uniform fixation of service charges**

WBEIDCL collected service charges from tenants and sub-lessees<sup>77</sup> for maintenance and upkeep of infrastructure. BoD last revised service charges in January 2012. While analysing the rates of service charges, Audit found that in case of fixation of rates at Moni Bhandar building, WEBEL Bhaban, STP-II<sup>78</sup> and SDF building, all situated at the same location with comparable facilities, monthly service charges for first three premises were fixed at ₹ seven/ sft and for the latter it was ₹ six/ sft respectively. As such, there was no objective criterion for fixation of service charges.

Thus, based on actual period of occupancy, area and the difference in rate of ₹ one/ sft per month, WBEIDCL had to incur loss of ₹ 85 lakh from January 2012 to March 2016 and avoidable loss of ₹ 1.94 lakh/ month since April 2016.

Management stated (November 2016) that service charge rate was lower at SDF as it was an older building. The Management's reply was not acceptable as the audit observation is on differential service charge rates for IT parks built in the same vicinity, which resulted in discrimination amongst its units, apart from revenue losses. Further, Audit observed that while SDF was an older building, the monthly expenditure on maintenance and upkeep during 2011-2015 was at ₹ 6.35 per sft while recovery was lower at ₹ six/ sft.

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<sup>74</sup> Revision of rates did not take place at Taratala IE during period of audit.

<sup>75</sup> Human Resource Development Centre.

<sup>76</sup> Being 69,000 sft at ₹ 26/ sft/ month.

<sup>77</sup> Plot occupants.

<sup>78</sup> Modules with both AC and Non-AC facility.

**(c) Delayed revision of transfer fees**

In terms of GoWB notifications, transfer of land/ developed plots from sub-lessee to assignee<sup>79</sup> attracted fees for such transfer, payable both to Urban Development Department (UDD), GoWB and WBEIDCL at equivalent rates. WBEIDCL did not, however, revise its transfer fees of land in line with GoWB directives from 2007 to 2012 for reasons not on record. Finally, in December 2012, WBEIDCL revised its transfer fees for land at ₹ three lakh per *katha* for industrial use and ₹ six lakh per *katha* for commercial use in accordance with UDD notification of 2007.

It was observed that between December 2010 and July 2012, WBEIDCL had permitted transfer of 387.36 *katha* of land to five industrial assignees at ₹ 2.50 lakh per *katha* (instead of applicable rate of ₹ three lakh per *katha*), totalling ₹ 9.68 crore. Thus, by delaying<sup>80</sup> the revision of transfer fees WBEIDCL had to incur loss of revenue of ₹ 1.94 crore.

Management did not refute (December 2016) the audit observations.

**2.2.10.5 Monitoring of billing activities**

As per the SOP of WBEIDCL, invoices were not raised in case the payment was delayed beyond six months by the allottee in default. It was observed that due to adoption of this procedure, WBEIDCL had failed to lodge an initial claim over existing defaulters for arrears and current dues. Test check of billing records showed that 50 allottees, occupying 0.57 lakh sft in eight parks, had defaulted on payments. It was further observed that billing with regard to these defaulters was blocked in the ERP system and bills were not drawn, for periods ranging from three to 50 months since the date of last bill drawn. Due to non-billing of these defaulting tenants/ occupants, WBEIDCL had to incur loss of revenue of ₹ 3.33 crore towards rent as of March 2016. Further, the SOP also provided for eviction of defaulters. WBEIDCL had not, however, taken any action for evicting these defaulters was observed from the records.

This also led to non-payment of Income Tax of ₹ one crore<sup>81</sup> and Service Tax of ₹ 0.43 crore (excluding penal interest and penalty for non-payment) for the financial year 2011-12 to 2015-16.

Management accepted (December 2016) the audit observation and added that non-payment for more than six months rendered the tenant's occupancy as questionable and it effectively became unauthorised occupancy. By not raising invoices, WBEIDCL had provided an opportunity to the defaulters to forfeit their liability.

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<sup>79</sup> Entrepreneur subsequently getting transfer of land from sub-lessee.

<sup>80</sup> Since the notification for revision of fees by UDD (April 2007) and its adoption (December 2012).

<sup>81</sup> Basic income tax at 30 per cent on ₹ 3.33 crore.

### 2.2.10.6 Delay in receipt of rent and penalty not charged

As per SOP of WBEIDCL, rent and other charges were payable by tenants within 10 days of date of raising of invoice. Tenants were to pay WBEIDCL by cheque, draft or NEFT<sup>82</sup>. Further, for delayed payments beyond the prescribed period of 10 days, the invoices stipulated recovery of penalty at two per cent per month.

Audit, while scrutinising 6,795 rental invoices (valued at ₹ 27.73 crore) out of 8,002 invoices (valued at ₹ 32.08 crore) for 2011-12 to 2015-16, observed that collections were made after delays<sup>83</sup> ranging from one to 1,503 days as depicted at **Table 2.2.2**.

**Table 2.2.2 : Penalty recoverable for delayed receipt of rent**

Range of delay	Number of cases	Penalty chargeable (₹ in lakh)
One day to 365 days (one year)	6,265	129.34
366 to 730 days (one to two years)	299	26.70
731 to 1,095 days (two to three years)	140	18.87
More than 1,095 days (three years and above)	91	24.52
<b>Total</b>	<b>6,795</b>	<b>199.43</b>

As has been shown in the table above, WBEIDCL had not charged penalty amounting to ₹ 1.99 crore for these delayed receipts. Further, as the funding pattern of WBEIDCL included interest bearing loans, undue delays in collection of rental dues had leveraged the interest coverage ratios<sup>84</sup>, resulting in outgo of interest<sup>85</sup> cost of ₹ 0.58 crore.

Management accepted (December 2016) the audit observations and added that efforts for recovery of outstanding dues were an ongoing process. Besides, WBEIDCL had not charged penalty to maintain its industry-friendly face. The reply is not tenable as this allowed undue extension of credit period.

### 2.2.10.7 Loss due to deficiency in collection

Receivables<sup>86</sup> from occupants of plots and modules as on March 2016 stood at ₹ 10.05 crore. Age-wise analysis of the receivables disclosed that 59 per cent of the receivables pertained to periods in excess of 12 months, indicating weak collection efficiency of WBEIDCL. Further, 41 per cent (₹ 4.10 crore) of total receivables pertained to 67 allottees who had either surrendered their modules

<sup>82</sup> National Electronic Fund Transfer.

<sup>83</sup> After allowing credit period of 10 days from date of invoice.

<sup>84</sup> Ratio used to determine how quickly a company can pay its interest expenses on debts.

<sup>85</sup> Computed at nine per cent, being the lowest cost of borrowed capital of WBEIDCL during 2011-2016.

<sup>86</sup> Rents, ground rent, service charges and other charges.

or had been evicted by WBEIDCL between 2012-13 and 2015-16, and chances of recovery from them were remote. Thus, due to deficiency in the collection system, WBEIDCL had to incur loss of revenue of ₹ 4.10 crore as of March 2016.

Management stated (December 2016) that regular monitoring and follow-up was being made to improve collection.

#### **2.2.10.8 Inspection of units and review of utilisation of allotted space**

As per its SOP, WBEIDCL had to inspect the sub-leased plots and buildings constructed thereon by their occupiers at regular intervals or as and when necessary. Information like use of built up space beyond 20 *per cent* for non-IT/ ITeS business, change in tenancy, status current position/ utilisation *etc.*, was to be collected by the inspecting team and reported. During test check of inspection reports, Audit observed that:

(i) Plots were allotted by WBEIDCL to IT and ITeS units. IT and ITeS units utilised these plots for their own use as well as for sub-letting out to IT and ITeS/ IT support service units after creation of infrastructure. In case of sub-letting to third party tenants, WBEIDCL was to collect monthly permission fees at ₹ three per sft from allottees for IT and ITeS units and ₹ six per sft for non-IT and ITeS units. WBEIDCL charged permission fees based on status reports regarding utilisation of developed plots/ buildings furnished by the allottees. WBEIDCL did not maintain any data in this regard and was dependent on the submission of information by allottees. As such, in the absence of periodic inspection, WBEIDCL has to forego permission fees due to it.

(ii) Since the intervals for inspection had not been prescribed, WBEIDCL had inspected only 13 *per cent* of the total number of allotted plots representing 12 *per cent* of the total area allotted (52.74 lakh sft). Moreover, during the same period, 75 plots (63 *per cent* of the total plots) occupying 66 *per cent* of the total area were never inspected. Further, 27 plots (23 *per cent*) occupying 19 *per cent* of the total area were inspected only once, while only 17 plots (14 *per cent*) covering 15 *per cent* of the total area were inspected on two to three occasions during these five years.

### **Skill Augmentation**

According to the Skill Gap Study Report (January 2013) of National Skill Development Corporation, during 2012-2022, West Bengal would incrementally require three lakh skilled and semi-skilled manpower in the IT and ITeS sectors. This required setting up of anchor institutes<sup>87</sup> for manpower development in IT and ITeS.

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<sup>87</sup> Major institutions with eligibility/ expertise to enhance IT/ ITeS skill level in the State on large scale.

In April 2008, WBEIDCL had started Webel Learning Services (WLS) for providing IT education and training to students who were studying/ had graduated, to prepare them for entry level positions in IT and ITeS industries. WBEIDCL did not conduct these training programmes itself; rather, it facilitated developing and conducting these training programmes through training partners selected by it. Funding for these programmes came from various national schemes of GoI for providing IT/ non-IT skill development/ vocational courses to students from backward classes. Successful trainees completing these programmes were issued joint certificates by WBEIDCL and their training partners.

### **2.2.11 Execution of GoI supported training schemes/ projects**

WBEIDCL took up execution of six schemes of IT training of various agencies of GoI<sup>88</sup> during 2013-14 to 2015-16 through their Training Partner at 63 locations in West Bengal, Bihar, Odisha and Jharkhand. Based on open tendering process, WBEIDCL selected (September 2013/ October 2014) a Kolkata-based private training partner<sup>89</sup> (TP) to execute training in and outside West Bengal. As per the terms of agreement, out of the total course fees receivable, WBEIDCL would retain 20 per cent and transfer the balance 80 per cent to the TP for execution of the training programmes. The aggregate amount of course fees and stipend for these six schemes was ₹ 7.53 crore<sup>90</sup>, of which WBEIDCL's share was ₹ 1.16 crore. Against this, the various agencies<sup>91</sup> of GoI had not disbursed ₹ 1.90 crore<sup>92</sup> till March 2016 as some requirements of the schemes had not been met.

As per the schemes guidelines, the general conditions of all the schemes were as follows:

1. The selection list had to be put up by WBEIDCL to the State Channelising Agency (SCA)<sup>93</sup> for their accord and acceptance;
2. The progress report of the training courses had to be submitted to the respective agencies of GoI; and

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<sup>88</sup> Viz. Ministry of Social Justice and Empowerment (MSJE), National Scheduled Castes Finance and Development Corporation (NSFDC), National Safai Karmacharis Finance and Development Corporation (NSKFDC) and National Backward Classes Finance and Development Corporation (NBCFDC).

<sup>89</sup> SMD Technologies.

<sup>90</sup> Course fees : ₹ 5.81 crore and stipend : ₹ 1.72 crore.

<sup>91</sup> The GoI bodies under Ministry of Social Justice and Empowerment.

<sup>92</sup> MSJE Scheme-II (₹ 16.50 lakh), NBCFDC Scheme-I (₹ 23.40 lakh), NBCFDC Scheme-II (₹ 41.25 lakh), NSFDC Scheme (₹ 91 lakh) and NSKFDC Scheme (₹ 17.70 lakh). MSJE Scheme-I full amount received.

<sup>93</sup> GoI schemes are implemented in states through a state level agency which is called State Channelising Agencies (SCA). In West Bengal, the SCAs are: West Bengal Scheduled Castes and Scheduled Tribes Development and Finance Corporation (WBSCSTDFC) for NSFDC scheme, West Bengal Backward Classes Development and Finance Corporation (WBBCDFC) for NBCFDC schemes.

3. A follow up on the effectiveness of the training had to be compiled and submitted to the respective agencies of GoI, a year after completion of the training.

Audit observations on selection of candidates, disbursement of stipend, supervisory role of WBEIDCL and collection of dues are given in the following paragraphs.

#### **2.2.12 Selection of candidates**

While examining the process of selection of candidates, Audit observed some irregularities which are discussed in the subsequent paragraphs.

##### **2.2.12.1 Lack of transparency in selection**

As a primary condition of the schemes, for selection of trainees, a committee was to be constituted to select candidates who met the specified criteria. The members of this committee were to be constituted with representatives from SCA, WBEIDCL and TP. The formation and existence of such committee were not found on record by Audit. As such, Audit could not arrive at an opinion regarding compliance, fairness and transparency regarding the selection process.

WBEIDCL stated (November 2016) that for selection of eligible candidates, newspaper advertisements specifying the eligibility criteria were published to mobilise prospective candidates. Thereafter selection list was drawn up for vetting and approval by SCA/ Sponsoring departments. These lists were treated as Master lists of candidates for future reference. The requisite approvals had been minuted and signed by officials of SCA/ sponsoring Departments and WBEIDCL. However, Audit observed that no lists of proposed and selected candidates were appended to any of the minutes or correspondences.

##### **2.2.12.2 Absence of records relating to credentials of candidates**

As per the requirement of the GoI agencies, candidates had to be selected on the basis of criteria stipulated in the schemes. These selection lists had to be put up by WBEIDCL for approval by SCA. Instead, WBEIDCL delegated its TP to coordinate with the SCAs for selection of trainees from the applications received by TP and publish the list of selected candidates, duly endorsed by WBEIDCL and SCAs.

As a result, WBEIDCL had no record of the applications received for the six training programmes it had conducted. It stated that all applications were received and archived by the TP. On being requisitioned by Audit for scrutiny, WBEIDCL could make available applications of 2,079 candidates (29 locations) out of 5,450 candidates (63 locations) for six schemes.

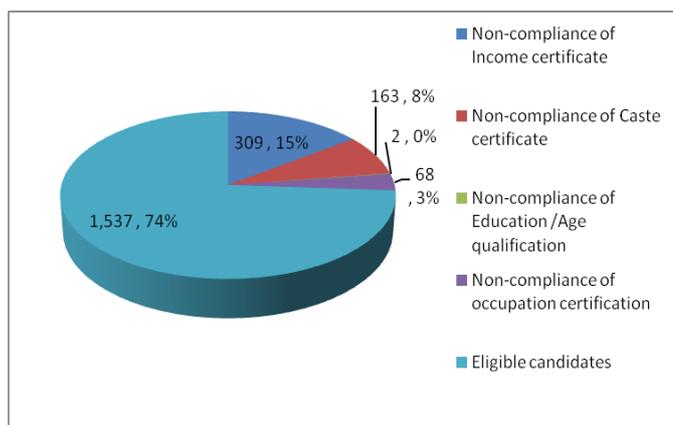
Credentials<sup>94</sup> of 3,371 candidates (62 per cent) were not made available to Audit; thus the eligibility of these candidates could not be assessed. The training cost and stipend incurred for these 3,371 trainees was ₹ 3.96 crore.

Moreover, it was observed that authentication of SCA was only obtained for 600 (11 per cent) out of 5,450 candidates. Thus, there was no assurance derived by WBEIDCL that applicants were selected as per the stipulated criteria.

### 2.2.12.3 Selection of ineligible candidates

Details of 2,079 candidates who had been selected for attending these training programmes were furnished to Audit and it was observed that 542 candidates (26 per cent) were not eligible for the intended training courses. **Figure 2.2.2** depicts the same, based on various eligibility criteria viz. inappropriate/ non-compliant/ non-availability of caste certificates, income certificates, age proof, occupation certificate, etc. The training cost and stipend incurred on such 542 candidates was ₹ 78.90 lakh.

**Figure 2.2.2: Eligible and non-eligible candidates**



(Source: Data compiled from scrutiny of attendance registers, candidate list, etc., by Audit in presence of WBEIDCL management.)

Management stated (December 2016) that out of the 542 ineligible candidates, it had traced documents for 155 candidates post completion of audit. Further it stated that non-compliant income certificates for additional 184 ineligible candidates was due to the lack of specific guidelines regarding

signatory/ issuing authority.

Management's reply regarding income certificates of 184 candidates was not acceptable as income certificates had to be obtained from the competent authorities viz., Collector, Kolkata, District Magistrate, Additional District Magistrate, Sub-Divisional Officer or Block Development Officer as specified in government guidelines. As regards the 155 candidates, the relevant documents were not submitted to Audit to enable verification.

### 2.2.13 Disbursement of stipend

Out of the six schemes reviewed, five had stipulated that the stipend element was to be disbursed to eligible candidates during the course. Audit

<sup>94</sup> Credentials are the supporting documents to the application like age, caste certificate, Income certificate, etc.

observations on disbursement of stipend to eligible candidates are discussed below:

#### **2.2.13.1 Transfer of stipend to TP for disbursement to trainees**

The schemes provided for direct benefit transfer of stipend to the trainees by WBEIDCL but on scrutiny it was observed that, in deviation of the scheme, the stipend amount was transferred to TP's account for onward disbursement to candidates. WBEIDCL also did not maintain any audit trail of transactions from the TP to the students like bank statement, reconciliation statement, refund details and other supporting records. Hence, assurance that the amount sanctioned to the students had actually been credited to their *bona fide* account could not be derived by Audit. Management stated (November 2016) that it had been decided to henceforth directly disburse stipend from WBEIDCL's account.

#### **2.2.13.2 Other deficiencies**

Some other scheme-specific deficiencies included absence of applications, payment of stipends in cash, *etc.*, which are described in **Annexure 4**. The value of course fees and stipend cost against these deficiencies amounted to ₹ 87.35 lakh.

#### **2.2.14 Monitoring execution of training programme and following up the effectiveness of the projects**

As envisaged in the schemes, WBEIDCL was to conduct periodic inspection of the training programme and submit progress reports at the start, during and at the end of courses to the GoI agencies. Audit observations regarding inspections conducted by WBEIDCL is given below:

1. Though envisaged in the schemes, WBEIDCL had failed to conduct inspections for three out of six GoI schemes.
2. Review of available inspection reports in three inspected trainings is given below:

**a) National Safai Karmacharis Finance and Development Corporation (NSKFDC) Scheme:** Three<sup>95</sup> locations were inspected by WBEIDCL (June 2015) after completion of the training programme, which defeated the purpose of inspection.

**b) National Backward Classes Finance and Development Corporation (NBCFDC) Scheme-I:** Nine<sup>96</sup> field inspections were conducted by WBEIDCL officials in June/ July 2015 *i.e.*, the inspection took place after the

<sup>95</sup> Arambag, Basirhat and Chandrakona Road.

<sup>96</sup> Hajipur, Muzzafarpur, Patna, Suri, Barjora, Kalna, Arambag, Chandrakona Road and Howrah.

completion of training. Thus, training conditions could not have been assessed for suitability/ completeness.

**c) National Scheduled Castes Finance and Development Corporation (NSFDC) Scheme:** Three<sup>97</sup> locations were inspected by WBEIDCL in June/ July 2015, after completion of the training programme which defeated the purpose of inspection. Thus, candidates found during inspection were not the same trainees that the TP had trained under this scheme.

Management stated (December 2016) that inspections had been conducted after completion of the training to facilitate grooming of trainees to face interviews. Management's reply is not acceptable as schemes envisaged inspections by WBEIDCL during the training course which it failed to comply with. Moreover, it assured that more future visits to centres were planned.

### Conclusions

Management of physical infrastructure by WBEIDCL was quite poor as it could not ensure complete occupancy in seven out of its 10 IT parks. It did not uniformly collect the security deposits in accordance with its policy. It had allowed concessional rentals to non-STPI units (occupying 8,708 sft) which had resulted in loss of revenue of ₹ 21.11 lakh. Further, delayed revision in charging of applicable/ permissible transfer fees led to loss of revenue of ₹ 1.94 crore. Non-invoicing on defaulting allottees had resulted in forfeiting claims of ₹ 3.33 crore from these allottees. WBEIDCL had failed in its role of effectively providing training in information technology to students who applied to its training programmes. There were inadequacies and irregularities in the selection process. WBEIDCL did not monitor the disbursement of stipend to eligible candidates. Monitoring of the training programmes was weak and the post-training follow up was non-existent.

### Recommendations

**WBEIDCL may initiate the following:**

- *Review annually and revise, if required, its rates for rent and service charges, keeping in mind the need to ensure occupancy of the constructed IT parks.*
- *Revise its policy of not drawing invoices on its defaulting allottees, in order to legally enforce its claim, comply with statutory laws and also improve its internal check system in raising of invoices.*
- *Ensure that the selection of candidates is as per government guidelines with regard to eligibility criteria, maintain necessary records and pay stipends to students directly.*

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<sup>97</sup> Suri, Rampurhat and Bankura.