

## OVERVIEW

### 1. Functioning of State Public Sector Undertakings

As on 31 March 2017, there were 92 State Public Sector Undertakings (PSUs) in West Bengal which comprised of 73 working PSUs (including nine Statutory Corporations) and 19 non-working PSUs (including one Statutory Corporation). During 2016-17, the working PSUs registered a turnover of ₹ 35,271.91 crore which was equal to 2.82 per cent of Gross State Domestic Product (GSDP). Further, the total turnover was 89.42 per cent of the aggregate investment (₹ 39,443.37 crore) in these working PSUs. They had employed 0.47 lakh employees as of March 2017. The return on equity of the working PSUs stood negative at 1.77 per cent.

*(Paragraph 1.1)*

#### Investments in PSUs

As on 31 March 2017, total investment of the Government in 92 PSUs was ₹ 40,611.43 crore. Power sector accounted for 72.40 per cent of total investment in 2016-17. During 2016-17, State Government provided financial support of ₹ 3,894.34 crore to PSUs towards equity, loans and grants/ subsidies.

*(Paragraphs 1.4 and 1.6)*

#### Arrears in finalisation of accounts

The Companies Act 2013 applicable Acts require PSUs to finalise their accounts, get them audited and presented to the Legislature in a time-bound manner. The State Government appoints the Chief Executive and Directors to the Board, who then are responsible for preparation of the PSUs' accounts. The accounts of 40 working PSUs were in arrears for periods ranging from one to nine years. Hence, the management had failed in this responsibility. There were 19 non-working PSUs of which 13 PSUs had arrears of accounts for one to 11 years.

*(Paragraph 1.8)*

#### Performance of PSUs

Out of 73 working PSUs, only 33 PSUs prepared accounts for 2016-17 as of September 2017. During 2016-17, 21 PSUs earned profit of ₹ 621.59 crore, 11 PSUs incurred loss of ₹ 665.34 crore and one<sup>1</sup> PSU incurred nominal loss. The total accumulated losses of 30 out of 73 working PSUs was ₹ 9,026.60 crore that exceeded their paid-up capital of ₹ 1,717.68 crore.

*(Paragraph 1.11)*

<sup>1</sup> West Bengal Dairy and Poultry Development Corporation Limited incurred loss of ₹ 26,611.12 only in 2016-17.

## **Follow up actions on Audit Reports**

Audit Reports were not being laid before the Legislature in a timely manner as Audit Reports pertaining to the years 2011-12 and 2012-13 were laid together in July 2014. Similarly, Audit Reports of 2013-14 and 2014-15 were laid together in July 2016. The pattern indicates that the State Government had reduced the laying of Audit Reports to a biennial exercise. This goes against constitutional and statutory obligations of the State Government.

*(Paragraph 1.15)*

## **2. Performance Audit relating to Government Companies**

### **Management of works by three PSUs**

#### ***Introduction***

Mackintosh Burn Limited (MBL), Westinghouse Saxby Farmer Limited (WSFL) and Britannia Engineering Limited (BEL) are three PSUs (PSUs) under the Public Works Department (PWD), Government of West Bengal (GoWB). These three PSUs plan, manage and execute construction works across the state, predominantly in the public sector. All the recommendations made in the Performance Audit, were accepted by the Government in December 2017.

#### ***Lack of due diligence in preparing estimates and framing terms and conditions of contracts***

- PWD guidelines were not followed for preparing estimates for formulating bids to tenders. This led to loss of ₹ 5.11 crore.
- BEL did not include defect liability period in the agreements for 15 works. This was in violation of the PWD guidelines. Similarly, specification of machinery to be provided at site was not mentioned in 15 sub-contracts of MBL and BEL.
- Time schedule for taking over the completed works were to be included in 28 agreements formed by BEL and WSFL. However, no schedules were included in these agreements. Thirteen completed works were yet to be taken over by clients. This led to undue extension in defect liability period.

*(Paragraph 2.8)*

#### ***Execution of works***

- The PSUs completed only eight to 33 *per cent* of works within schedule, remaining works were either completed with delays or were yet to be completed. In respect of 86 works completed beyond schedule, the clients had not released the payment of ₹ 62.44 crore.

- Works valued at ₹ 911.49 crore were behind schedule. This was on account of the work sites not being free from all encumbrances and delay in receipt of approved design drawings.
- The delay in execution resulted in imposition of liquidated damages of ₹ 3.33 crore, cost overrun amounting to ₹ 6.56 crore and termination of projects at a loss of ₹ 1.24 crore.
- Defects were noticed within three to 21 months of the completion of construction in 36 works executed by all three PSUs. Management did not provide information about the costs involved in rectification.
- E-tendering process for hiring sub-contractors was not followed in any of the works tendered by MBL during 2014-15 to 2016-17. MBL sub-contracted 13 works valued at ₹ 33.17 crore on the basis of single bids. Hence, no assurance on competitiveness of bids could be obtained.
- MBL had issued 46.24 *per cent* orders (80 out of 173 orders exceeding ₹ 10 lakh) valued at ₹ 18.27 crore, on the basis of single quotation. This resulted in extra expenditure of ₹ 2.46 crore.
- MBL executed additional works valued at ₹ 26.88 crore without prior approval of clients.

*(Paragraph 2.9)*

### ***Financial Management***

- The three PSUs had not raised running account bills for ₹ 134.15 crore for the portion of work completed in 86 ongoing works.
- Funds amounting to ₹ 31.69 crore, for agency works undertaken on behalf of State Government, were not received till March 2017. This hindered the progress of work.
- MBL and WSFL completed 109 agency works but had not claimed agency fees amounting to ₹ 22.91 crore.
- The three PSUs undercharged agency fees by ₹ 4.38 crore.

*(Paragraph 2.10)*

### ***Monitoring of works and existence of internal controls***

- Progress reports were maintained for only 23 *per cent* of works by MBL, the other two PSUs did not prepare progress reports of ongoing works.
- None of the site offices maintained registers as required.

- Adequate staff at site offices for supervision as per the norm fixed by GoWB was not deployed, leading to shortfalls in inspection.

**(Paragraph 2.11)**

Hence, audit of management of works by three PSUs revealed that due diligence was not observed in preparing estimates to bid for tenders and contract documents were not properly formulated. Delays in execution of works, imprudent purchase of materials, non-recovery of agency fees, lack of monitoring *etc.* were also noticed.

### **3. Compliance Audit**

Compliance audit observations included in this Report highlight deficiencies in the management of PSUs, which had serious financial implications. The irregularities pointed out include:

#### ***Vehicular Emission by State Transport Undertakings (STUs) in West Bengal***

- Transport Department had not prepared requisite action plans to (i) protect and safeguard the environment from pollution and (ii) mitigate green-house gas emissions arising out of vehicular emissions in operation of its STUs as stated in the Environmental Policy Statement and the State Action Plan.

**(Paragraph 3.1.4.1)**

- GoWB failed to create compressed natural gas (CNG)/coal bed methane (CBM) distribution network for CNG buses. This led to flaring of 2.81 lakh tonnes of CBM *i.e.* 39.12 *per cent* of production in 2015-16 and 2016-17 which could have been utilised for operation of 7,812 CNG buses annually.

**(Paragraph 3.1.4.2)**

- Audit noticed non-phasing out of BS-I, II and III buses and non-compliance with the testing norms of Pollution Under Control Certification.

**(Paragraphs 3.1.5.1 and 3.1.5.2)**

#### ***Compliance with rules made under Mines and Minerals (Development and Regulation) Act, 1957 by West Bengal Mineral Development and Trading Corporation Limited (Company)***

- Out of 95 milestones fixed for commencement of production in six coal blocks, only 15 were achieved in time. Achievement of 38 were delayed and 42 were not achieved.

**(Paragraph 3.2.3.1)**

- There was a delay of 12 years in execution of lease deed for extraction of granite at Bara Panjania, Purulia. The Company had forgone revenue of ₹ 14.81 crore from the date of grant of lease upto the date of start of actual quarrying.

**(Paragraph 3.2.4.2)**

- The Company had allowed irregular and unjustified waivers aggregating to ₹ 52.60 crore to “raising contractors for coal”.

*(Paragraphs 3.2.5.1 and 3.2.5.2)*

### ***Follow-up Audit: Performance audit on production and marketing performance of Saraswati Press Limited (SPL)***

#### ***Introduction***

A Performance Audit on the ‘Production and Marketing performance of **Saraswati Press Limited**’ was incorporated as Paragraph 2.3 in the Report of the Comptroller and Auditor General of India (Commercial), Government of West Bengal for the year ended 31 March 2008. The Report was laid in the West Bengal Legislative Assembly in July 2009. Government of West Bengal accepted all the observations/recommendations and assured to take action for improvement of performance. The Committee on Public Undertakings had not discussed the Performance Audit till date.

#### ***Audit Findings***

- None of the recommendations made by audit during the previous audit were fully implemented.

#### ***Production planning and optimal utilisation of press / binding section machinery***

- In the press section, the annual standard production capacity was planned at only one-third of the installed capacity. Against this, the actual production was only 40.10 to 56.76 *per cent* of the planned standard production. This indicated very low capacity utilisation. Similarly, in the binding section, achievement was between 60.56 and 64.56 *per cent* of targets.
- Lack of production planning through the Enterprise Resources Planning system led to belated delivery of textbooks. The textbooks were delivered after 31 to 148 days of commencement of academic sessions.
- SPL hired machinery at annual hire charges of ₹ 2.14 crore. That machinery was underutilised, leading to unproductive expenditure of ₹ 1.50 crore *per year*.

*(Paragraph 3.3.3)*

#### ***Sub-contracting***

- Both the PSUs (SPL and its subsidiary West Bengal Text Book Corporation Limited) had sub-contracted work to other entities, totaling ₹ 101.31 crore. This was inconsistent with their commitment to stop outsourcing.

*(Paragraph 3.3.4)*

***Revamping the incentive schemes to ensure increase in productivity and reduce overtime***

- The standard production targets were set lower than the installed production capacity by 62.68 to 69.15 *per cent* during 2014-17. During these three years, on an average, each employee received incentives of ₹ 30,875 for no additional achievements.
- On an average, 120 out of 130 employees were engaged in overtime work of more than fifty hours in a quarter. This violated the statutory norms. SPL/WBTBCL paid overtime allowance of ₹ 5.25 crore on this account to 106 to 145 employees.

***(Paragraph 3.3.5)***

***Introduction of sales and realisation target for the marketing agents***

- Jobs amounting to ₹ 9.56 crore relating to printing of books were executed without any formal order or agreement. The client did not make the payment.

***(Paragraph 3.3.7.1)***

***Strengthening of monitoring mechanism***

- Lack of monitoring over generation of scrap paper led to loss of ₹ 23.62 crore.
- Raising invoices after time lags of 14 to 268 days from their dates of delivery resulted in delayed realisation of payment. Consequently, bearing the burden of additional interest of ₹ 1.78 crore paid to the banks against the borrowed capital.

***(Paragraph 3.3.8.2)***

***Gist of other important audit observations is given below:***

- Non-inclusion of exchange rate variation clause in the tender document led to extra expenditure of ₹ 156.76 crore by **West Bengal Power Development Corporation Limited**.

***(Paragraph 3.4)***

- **West Bengal Power Development Corporation Limited** failed to give requisite three months' advance notice to ECL for renovation and short lifting of coal. This led to payment of avoidable compensation of ₹ 80.97 crore.

***(Paragraph 3.5)***

- Non-recovery of advances in time-based manner led to loss of interest of ₹ 4.06 crore to **West Bengal State Electricity Transmission Company Limited**.

*(Paragraph 3.7)*

- **West Bengal Highway Development Corporation Limited** failed to float and finalise the tender well in advance for the collection of toll charges. This led to avoidable loss of revenue of ₹ 2.56 crore.

*(Paragraph 3.9)*