

## CHAPTER IV

### 4 Transaction Audit Observations

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

#### Government companies

#### WEST BENGAL ESSENTIAL COMMODITIES SUPPLY CORPORATION LIMITED

**4.1 The Company suffered loss of Rs 193.60 crore in export of iron ore fines in which there was violation of basic principles of financial propriety and regularity which benefited the Associates, shipping agents and foreign buyers at the cost of the Company's financial health.**

Audit scrutiny revealed the following irregularities in export of iron ore fines (IOF) to China :

- No viability study was carried out nor the assistance of any other PSU engaged in export taken before embarking on the export of iron ore fines;
- Associates and shipping agents were appointed in a non-transparent manner without verifying their credentials;
- Advances were released to the Associates indiscriminately (against no security in 7 cases and grossly inadequate security in 11 cases) and were not recovered/ adjusted against final dues;
- Letters of Credit were encashed fraudulently;
- Exports were made without identifying buyers; and
- RBI directions were violated and contractual obligations dishonoured.

These are discussed in succeeding paragraphs.

**4.1.1** Based on a *suo-moto* proposal (December 2003) from one V Rajagopal, the principal prime mover (PPM), the Managing Director (MD) of the Company, without the approval of the Board of Directors (BOD), decided (March 2004) to export 1.80 lakh tonnes (sale value : Rs 28.60 crore) of IOF to China through the business Associates<sup>1</sup>, to earn profit of Rs 1.73 crore *i.e.* margin of 6.05 *per cent* on the sale value as projected by

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<sup>1</sup> A person, acting on behalf of the Company, to undertake the logistics relating to export business of IOF

PPM. The Board of Directors had 'noted the above position' in September 2004.

It was noticed during audit that all major decisions regarding iron ore export were taken in non-transparent manner and in violation of the basic principles of financial propriety, regularity. An *ad-hoc* EXIM Committee was stated to have been constituted. However, no records or details about the constitution or functioning of the Committee were produced to Audit. The MD constituted a Committee<sup>2</sup> in June 2005 to oversee export and import activities, **when the export of IOF to China had already been completed.**

**4.1.2** The Company would undertake export by entering into firm contracts with foreign buyers identified by its Associates. The contracts would, *inter alia*, specify the rate, quantity, quality, delivery schedule, payment terms, method of quality checks, arbitration/ legal recourse *etc.* Accordingly, the Associates would obtain irrevocable letter of credit (LC) from the buyers in favour of the Company to ensure prompt realisation of its dues. Further, the Company would obtain status reports on the buyers from the Export Credit Guarantee Corporation of India (ECGC). Based on the buyers' requirements, the Company would arrange back-to-back contracts with its Associates for supply of the specified quantity and quality of IOF from mines, its transport to the nearest port, storage at port and loading on to the vessels chartered either by the Company (C&F<sup>3</sup> basis) or by buyers (FOB<sup>4</sup> basis), within the validity period of the LC.

The procurement of IOF, its transport to the port, storage at the port, loading on the vessels and other pre-shipment expenses would be funded from export packing credit advance (EPC), obtained from banks, for a period of 180 days. EPC would be liquidated from the export proceeds only. The onus would be on the Associates to file the requisite returns with the appropriate authorities.

**4.1.3** Between July/ August 2004 and May/ June 2005, the Company exported to China on 34 vessels, 13.96 lakh dry metric tonnes (DMT) IOF (C&F value of 13.64 lakh DMT : Rs 370.49 crore, F.O.B. value of 32,267 DMT : Rs 5.87 crore) sourced through 18 Associates. Thirty three vessels were chartered through eight<sup>5</sup> shipping agents on C&F basis, while one vessel was shipped on FOB basis. The Company shipped IOF out of the six<sup>6</sup> Indian ports to 10<sup>7</sup> Chinese ports.

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<sup>2</sup> consisting of General Manager, Personnel Manager, Financial Advisor and Chief Accounts Officer and Manager (Exports)

<sup>3</sup> Cost & freight

<sup>4</sup> Free on board

<sup>5</sup> M/S Sea Quest Shipping Pte Limited, Singapore (24); M/S Trans Globe Shipping, China(3); M/S Eastern Bulk & Shipping Co., Kolkata (1), ; M/S Prosperous Shipping HK Limited, Hong Kong (1); M/S Realm Shipping, China (1); M/S Wajilam Exports, Singapore (1); M/S ECL (Singapore) Pte. Limited, Singapore (1); M/S Emirates Trading Agency, Dubai (1).

<sup>6</sup> Murmugao, Panaji, Mangalore, Vishakapatnam, Paradip and Haldia

<sup>7</sup> Lianyungang, Tianjin, Rezhou, Antai, Qingdao, Lanshan, Xingang, Jingtang, Longkou and Qindang

**4.1.4** The Company sustained loss of Rs 193.60 crore (based on conversion of US\$ one as Rs 43.50) on export of IOF as tabled below –

**The Company suffered loss of Rs 193.60 crore on export of IOF.**

Reasons for losses as identified in audit	Amount (Rupees in crore)	Paragraph reference
Doubtful recovery of advances related to the Associates, Shipping agents	<b>77.30</b>	4.1.12, 4.1.14 & 4.1.19
Doubtful recovery of dues from foreign buyers	<b>15.95</b>	4.1.22, 4.1.29 & 4.1.30
Payment of excess/ additional freight	<b>18.22</b>	4.1.16 & 4.1.18
Payment of additional interest on Export Packing credit	<b>16.74</b>	4.1.9, 4.1.12 & 4.1.14
Non-payment of freight by Shipping Agents to Ship Owners leading to failure to recover dues against invoices	<b>14.70</b>	4.1.25
Deductions by foreign buyers against invoices towards freight, storage & other charges at destination ports	<b>14.23</b>	4.1.28
Loss on vessel chartering business	<b>10.22</b>	4.1.32
Short invoicing/ short claims on foreign buyers	<b>9.47</b>	4.1.21 & 4.1.27
Avoidable payment of demurrage	<b>7.07</b>	4.1.15 & 4.1.16
Compensation for breach of contracts by the Company	<b>6.98</b>	4.1.26 & 4.1.30
Loss due to quality deterioration & price reduction	<b>2.25</b>	4.1.14
Encashment of bank guarantees by foreign buyers	<b>0.47</b>	4.1.14 & 4.1.17
<b>Total</b>	<b>193.60</b>	

The Company had failed to compile the accounts for 2004-05 despite repeated requests from the Statutory Auditors. In absence of annual accounts, the audit analysis has been conducted and the loss on export worked out on the basis of information furnished and records made available by the Company. The following points were noticed from the information/ records made available.

#### **Failure to undertake viability study**

**The Company neither conducted viability study nor did seek guidance from any PSU before dealing in export.**

**4.1.5** Before taking up export of iron ore fines (a venture being undertaken for the first time) it was imperative to conduct (or have conducted) an assessment of the financial viability of such activity and provide for adequate safeguards against risk involved. Despite the Company's lack of expertise, neither was any independent viability study conducted nor was assistance sought from any other public sector undertaking engaged in export.

#### **Funding**

**4.1.6** The Company financed the export of iron ore fines (IOF) through Export Packing Credit of Rs 263.94 crore against 24 LC and three contracts as well as cash credit of Rs 41.74 crore<sup>8</sup>.

<sup>8</sup> Balancing figure

**Illegal use of letters of credit received from foreign buyers**

**4.1.7** The Company received (July 2004 – February 2005) 49 LC aggregating Rs 649.02 crore (US\$ 14.92 crore) from Chinese buyers for export of 21.47 lakh DMT<sup>9</sup> (**Annexure - 26**). It availed (August 2004 – May 2005) export packing credit (EPC) of Rs 227.28 crore carrying interest at the rate of 6.75 *per cent per annum* from seven<sup>10</sup> nationalised banks against security of 24 LC. In addition, the Company also drew EPC of Rs 36.66 crore against three contracts (**Annexure- 26**).

Even after encashing these 24 LC, the Company supplied only 3.03 lakh DMT against 9.77 lakh DMT committed under these LC leading to short/ non-supply of 6.74 lakh DMT to 15 buyers who had opened LC.

The Company fraudulently withdrew Rs 24.37 crore from two banks.

Moreover, the Company **contravened the banking regulations and discounted three LC<sup>11</sup> with two banks to draw EPC of Rs 24.37 crore (US\$ 56.03 lakh) in excess of their value, by presenting original as well as photocopies of these LC to two different banks.** The matter was not investigated to fix responsibility.

**Failure to repay export packing credit - additional interest burden**

**4.1.8** The EPC availed was for tenure of 180 days/ one year, on expiry of which the rate of interest<sup>12</sup> on the outstanding balance thereon would increase from 6.75 to 10.75 *per cent*. Although the Company had realised Rs 294.41 crore (US\$ 6.77 crore) against IOF exports, it repaid (March-May 2005) only Rs 77.75 crore to the banks and diverted Rs 216.66 crore to other purposes which could not be identified in audit in the absence of records. Consequently, against EPC of Rs 263.94 crore drawn, Rs 186.19 crore (70 *per cent*) remained outstanding for at least, 330 to 365 days, attracting additional interest of Rs 12.03 crore for the period from March 2005 to March 2006.

**Lacunae in selection of Associates and agreements with them**

The Company appointed 18 Associates without verifying their credentials and experience.

**4.1.9** The Company had neither laid down any criteria for appointment of the Associates nor invited expressions of interest for their appointment as the Associates. Based on *suo-moto* proposals received, the Managing Director had approved the engagement of 18 Associates without verifying their credentials.

No agreement was signed with six Associates.

**4.1.10** While the Company entered into 20 agreements with 12 Associates, it did not draw any agreement with six Associates for no reasons on record. Audit scrutiny of the agreements with the Associates revealed the following deficiencies-

<sup>9</sup> Dry metric tonnes

<sup>10</sup> State Bank of Indore, Canara Bank, Bank of Maharashtra, Syndicate Bank, Allahabad Bank, Union Bank of India and Oriental Bank of Commerce

<sup>11</sup> Serial Nos.22, 36 & 44 of Annexure -26

<sup>12</sup> 6.75 *per cent* for first 180 days, 8.75 *per cent* for 181 - 270 days & thereafter 10.75 *per cent*

- The Company had neither standardised its agreements with the Associates nor had these agreements vetted by the Legal wing of the Company/ legal experts to safeguard the Company's interest.
- The Company had also not entered into back-to-back agreements with the Associates.
- The Company entered into three agreements without specifying either the rate and/ or the quantity of IOF to be supplied.
- The agreements did not provide for obtaining any security against advances to be paid to the Associates except with Laxmi Global Company.
- No penalty clause for non-performance of the contracts by the Associates was provided for in twelve agreements.

**Indiscriminate release of advances to Associates without obtaining any security (7 cases) and grossly inadequate security (11 cases)**

**4.1.11** The Company paid (March 2004 – May 2005) advances of Rs 328.02 crore to 18 Associates (**Annexure - 27**) for procurement of IOF from mines and arranging supply at the nearest port for shipment to China. Audit noticed the following deficiencies-

**Advances of Rs 328.02 crore were released against nominal security of rupees two crore only in 11 cases and no security in seven cases.**

- Against advances of Rs 307.72 crore paid to 11 Associates, the Company obtained (December 2004 – March 2005) security deposits aggregating rupees two crore only, while Rs 20.31 crore were released (March 2004- March 2005) to seven Associates without obtaining any security.
- The Company obtained security deposits from nine Associates after 10 to 240 days from the release of advances of Rs 85.61 crore, indicating that the Company itself financed these security deposits from the Associates.
- The Managing Director had indiscriminately released advances at 90 to 95 *per cent* of the cost of IOF to be supplied with iron content of 63.5 *per cent* for high grade IOF and 58 to 59 *per cent* for low-grade IOF. The quantity as well as actual iron content of IOF actually shipped was not reconciled with the contract/ ordered quantity and quality respectively.

**Advances of Rs 15.42 crore were released to five Associates who did not deliver IOF while Rs 45.09 crore were released to 13 Associates in excess of supplies made.**

**4.1.12** Against advances of Rs 328.02 crore to the Associates, the Company received (August 2004 – May 2005) 13.97 lakh DMT IOF valuing Rs 267.51 crore resulting in excess advances of Rs 60.51 crore, including Rs 15.42 crore released to five Associates who did not deliver any IOF. Audit scrutiny revealed that in respect of 13 Associates, the Export Division of the Company failed even to communicate to the Accounts Division, the quantity and quality of IOF supplied by the Associates, prior to release of subsequent advances. Due to this lax co-ordination, the Company had released

Rs 45.09 crore in excess to these Associates. These excess/ unadjusted advances resulted in excess payment of interest of Rs 4.58 crore on EPC.

***Loss on first shipment due to utter mismanagement***

**4.1.13** The Company received (July 2004) from Zhejiang Arts and Crafts Import- Export Co. Ltd., China (ZAC) a LC of US\$ 20.80 lakh for supply of 40,000 wet metric tonnes (WMT) IOF at Beilun Port, Ningbo (China) with minimum iron content of 63.5 *per cent* at US\$ 52 per DMT by 25 July 2004. The Company issued a bank guarantee of US\$ 67,680 (Rs 12.69 lakh) in favour of ZAC as security for performance of the contract. Accordingly, the Company arranged (July 2004) the consignment from New Mangalore port through an Associate, Balaji Export & Shipping, Mumbai (BES) and drew (August – September 2004) EPC of Rs 10.22 crore from Union Bank of India against the LC. Although BES was to supply the IOF at Rs 1,250 per DMT by 31 July 2004, *i.e.* beyond the last date of export, it failed to supply IOF even by that date.

Later, BES supplied (August 2004) only 2,391 WMT at the rate of Rs 2,325 per WMT with lower iron content of 60 *per cent*. The Company had to purchase (August 2004) 38,361 WMT from eight suppliers at New Mangalore port at Rs 1,050 to Rs 2,325 per DMT. The total quantity of 40,752 WMT (37,178 DMT), purchased at FOB cost of Rs 6.61 crore, was loaded onto M.V. Grand View for export to ZAC.

**4.1.14** Meanwhile, the Company, having received (26 August 2004) another LC for US\$ 25.20 lakh from another Chinese buyer *viz.* Shandong Ocean Chemical Imp. & Exp. Co. Ltd (SOC) at a higher rate of US\$ 63 per DMT, diverted the IOF to SOC at Longkou port. Ultimately, the Company could invoice them for 34,421.256 DMT at the rate of US\$ 53 aggregating US\$ 18.24 lakh only instead of US\$23.42<sup>13</sup> lakh due to poor quality. Thus, against an expenditure of Rs 11.67 crore including freight, the Company realised Rs 7.93 crore.

The following points were noticed in this connection :

**The Company suffered loss of Rs 5.53 crore in its maiden venture.**

- Since the Company had defaulted in supply to ZAC, they encashed (September/ October 2004) the bank guarantee of Rs 12.69 lakh.
- In the absence of risk purchase clause in the agreement with BES, the Company could not recover the additional expenditure of Rs 1.96 crore on purchase from other sources.
- The Company had advanced (11-18 August 2004) Rs 1.26 crore to a supplier, United Telelinks (Bangalore) Private Limited, for supply of 13,000 DMT at New Mangalore, but received only 9,057 DMT valuing Rs 91.97 lakh. The Company neither obtained balance supply nor did it recover excess advance of Rs 34.28 lakh from the supplier.

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<sup>13</sup> 37,177.87 DMT @ US\$63

- The Company did not recover Rs 74.04 lakh from BES towards advance (Rs 60.94 lakh) and additional interest (Rs 13.10 lakh) on EPC.
- The Company failed to load 650 DMT valuing Rs 11.42 lakh and its whereabouts were not known.
- The variations in moisture and iron content between load and destination port resulted in reduced billed quantity and rate by 7.41 and 15.87 *per cent* respectively, leading to loss of Rs 2.25 crore (US\$5.18 lakh).

Thus, the Company incurred loss of Rs 5.53 crore in its venture of IOF export.

#### ***Loss due to deficient performance of Associates for subsequent exports***

**4.1.15** The Company executed (December 2004) a contract with Swiss Singapore Overseas Enterprises Pte. Ltd. (SSOE) for shipment of 25,000 DMT by 25 December 2004 on FOB ex-Haldia. On the other hand, the Company entered (December 2004) into an agreement with an Associate, *viz.* Dolfin Exports, Bhubaneswar (Dolfin) for supply of unspecified quantity of IOF by 4 February 2005. The Company released (December 2004 – February 2005) advances of Rs 3.30 crore to Dolfin.

**The Company paid demurrage and excess freight of Rs 7.30 crore due to non-performance of two Associates.**

A vessel (MV Kallisto) was placed by the Company at Haldia on 19 February 2005, but the Associate supplied only 13,251 WMT. The Company arranged 6,292 WMT of IOF from three other Associates. Dolfin offered to supply further IOF from Paradip. Hence, the Company diverted the vessel to Paradip (27 February 2005), but Dolfin failed to fulfil its commitment. Ultimately, A.B.Minerals & Exports (ABM) supplied (March 2005) 19,815 WMT to aggregate 39,358 WMT. Due to delay of four days at Haldia, the Company had to pay (May 2005) demurrage of Rs 2.18 crore (US\$ five lakh). Moreover, SSOE was dissatisfied with the performance of the Company and cancelled (April 2005) two subsequent orders for 80,000 DMT valuing Rs 19.84 crore (US\$ 45.60 lakh).

**4.1.16** Another Associate *viz.* Bharat Minmet Corporation (BMC) hired (October 2004) two<sup>14</sup> fully mechanised jetties at Panaji to ensure uninterrupted loading by transshipment without waiting. Despite this, there were delays of four to eleven days in loading 1,66,223 WMT on three<sup>15</sup> vessels at Panaji by BMC. As a result the Company paid (April/ May 2005) demurrage of Rs 4.89 crore (US\$ 11.23 lakh).

Further, against 68,600 WMT to be loaded on another vessel (Maritime Light) by the same Associate, its' inability to arrange adequate IOF led to short-loading (April 2005) by 1,928 WMT. The Company, however, had to pay freight for the contracted quantity, thereby incurring excess freight of Rs 23 lakh.

<sup>14</sup> Vagus on the northern end and Digashi on the southern end from Salgaocar Mining Industries Private Limited

<sup>15</sup> Pearl of Sharjah (Four days), Navision Bulkar (Nine days) & Xinmao (11 days)

In absence of an enabling provision in the agreements for recovery of avoidable demurrage (Rs 7.07 crore) and excess freight (Rs 23 lakh) paid to the shipper, the Company sustained loss of Rs 7.30 crore on account of delayed loading/ failure to arrange cargo ready for loading.

#### **Loss due to invocation of bank guarantees for failure to supply IOF**

**4.1.17** Against two LC aggregating Rs 16.29 crore (US\$ 37.45 lakh) for supply of 62,500 DMT IOF obtained (July 2004/ February 2005) from two customers i.e. Xiamen International Trade Group (XITG) and Daewoo International Corporation of South Korea (Daewoo), the Company issued two bank guarantees equivalent to Rs 33.92 lakh as performance security. The Company had discounted (August- September 2004) the LC from XITG to draw an aggregate Rs 6.01 crore under Export Packing Credit. The Company, however, failed to supply IOF and the importers invoked (September 2004/ April 2005) these bank guarantees leading to loss of Rs 33.92 lakh.

#### **Deficiencies in selecting shipping agents**

**4.1.18** The Company had chartered vessels for shipment of 33 consignments on C&F basis, from Indian ports to Chinese ports. Accordingly, the Company was required to enter into agreements, termed as ‘voyage charter party’ or ‘contract of affreightment’ with the vessel owners. The Company preferred to charter 33 vessels through eight shipping agents (**Annexure - 28**), on whose instructions, the Company remitted (August 2004 – May 2005) freight and demurrage of Rs 147.34 crore (US\$ 3.59 crore) to Indian and foreign bank accounts. It was noticed in audit that –

**The shipping agents were appointed in non-transparent manner.**

**No agreement was entered into directly with the vessel owners.**

**Additional freight of Rs 53.36 lakh was paid for sailing between the same ports.**

- The Company failed to enter into agreements with the vessel owners. Instead, it opted to work through shipping agents. These shipping agents were not selected through competitive bidding. Instead, based on previous transactions, the Company engaged Sea Quest Shipping Pte Limited, Singapore (Sea Quest) for charter of 24 vessels, while one agent (Trans Global Shipping Co. Limited) placed three vessels and the remaining six agents placed one vessel each.
- The freight rates of Sea Quest fluctuated between US\$ 17.50 and US\$ 27 per DMT. Even though the Company noticed wide variations of 14 to 17 *per cent* in freight rates from the same loading and destination ports, it failed to invite competitive rates from various shipping agents and accepted the rates offered by Sea Quest. It was noticed in audit that two<sup>16</sup> vessels sailed in January 2005 from Paradip to Xingang with different freight rates of US\$ 21.75 and US\$ 24 per WMT respectively leading to additional payment of freight of Rs 38.10 lakh. Similarly, the Company incurred (April 2005) additional freight of Rs 15.36 lakh on two<sup>17</sup> other vessels from Panaji to Xingang.

<sup>16</sup> Sea Elegance (42,250 WMT @ US\$ 21.75 per WMT) & Gulsar Ana (38,931 WMT @ US\$ 24 per WMT)

<sup>17</sup> Selendang Tiara (70,605 WMT @ US\$ 27 per WMT) & Maritime Light (66,672 WMT @ US\$ 26.50 per WMT)



**The Company abetted in laundering foreign currency of Rs 17.46 crore by remitting funds abroad to unknown entities .**

- The Company remitted the freight in advance through its banks on the instructions of shipping agents without any security and ensuring the genuineness of the foreign beneficiaries or ascertaining that the remittances actually reached the vessel owners or their agents. **For 12<sup>18</sup> vessels, the Company, on the instructions of Sea Quest, remitted more than half (US\$ 65.22 lakh) of their total remittance (US\$ 127.82 lakh) to the bank accounts of Connect-Well (S) Pte. Ltd. (ConWell) at New York & Singapore. In addition, for five<sup>19</sup> vessels, the entire freight of US\$ 44.80 lakh was remitted to ConWell. The Company did not ascertain the sanctity of these payments nor did identify the services received from ConWell.**

Against seven shipments (**Annexure - 29**) the Company had remitted Rs 37.32 crore (US\$ 85.80 lakh) to foreign bank accounts all over the world through banks. Subsequently, the vessel owners claimed/ foreign buyers deducted Rs 17.46 crore (US\$ 46.89 lakh) towards freight charges since they had not received their remittances towards freight charges.

#### ***Advances remitted but vessels not placed***

**Rupees 15.73 crore were advanced but vessels were not placed.**

**4.1.19** The Company had advanced (December 2004 – March 2005/ July 2004) Rs 15.50 crore (US\$ 35.63 lakh<sup>20</sup>) and Rs 24 lakh to Sea Quest (six vessels) and Uno (one vessel) respectively although these seven vessels were never placed. Moreover, no alternate vessel was nominated. While the Company recovered (June 2005) Rs 1.50 lakh from Uno after a year, Rs 15.73 crore remained unrecovered.

#### **Recovery of dues**

**4.1.20** The Company exported 13.96 lakh DMT valuing Rs 376.36 crore (US\$ 8.65 crore) in 34 consignments (LC : 21, contracts : 13), against which it raised (August 2004 - August 2005) bills aggregating Rs 342.93 crore (US\$ 7.88 crore) i.e. 91 *per cent* only (**Annexure - 30**). The Reserve Bank of India (RBI) regulations provide for realisation of the full export value of goods within six months from the date of shipment. Till March 2006, the Company had realised (September 2004 – November 2005) Rs 294.41 crore (US\$ 6.77 crore) only against 31 consignments. The Company neither obtained credit ratings of the buyers from ECGC nor monitored timely realisation from the foreign buyers. It was noticed in audit that receipts from foreign buyers declined due to quality failure, despatch of cargo without LC *etc.*

Some instances of short-billing, under and non-realisation are discussed below.

<sup>18</sup> MV Pacific Scorpio, MV Chang An, MV Frontier Angel, MV Yasa Aysen, MV Sea Elegance, MV Agate, MV Sea Boss –I, MV Gold Friday – II, MV Attar, MV Pearl of Sharjah, MV Kallisto & MV Seledang Tiara

<sup>19</sup> MV Yick Shun, MV Jhong Hai, MV Gulsar Ana, MV Gokan & MV Eagle

<sup>20</sup> Including US\$ 7.41 lakh to the bank accounts of ConWell at Singapore

### ***Short-billing of export proceeds***

**Despite contractual provision the Company failed to raise bills of Rs 9.06 crore on the buyers.**

**4.1.21** In respect of 13<sup>21</sup> consignments shipped (September 2004 - April 2005) against LC, the Company failed to obtain the Chinese Import- Export Inspection and Quarantine (CIQ) reports from the destination ports and consequently, it could not raise invoices on the buyers for Rs 2.70 crore (US\$6.20 lakh), and had to forgo Rs 2.70 crore to the benefit of the buyers. Similarly, Rs 6.36 crore (US\$ 14.63 lakh) had not been raised against eight<sup>22</sup> consignments shipped (March-May 2005) against contracts without LC towards 10 *per cent* of their export value of Rs 64.98 crore (US\$ 1.49 crore). The contracts with foreign buyers provided that in case CIQ reports were received even after 40/ 60 days from the arrival of the vessels at destination ports, the Company could raise bills for the balance amount. The Company, however, had not raised the claim so far and in view of the limitation, the claim of Rs 9.06 crore has become time barred, resulting in loss to the Company.

### ***Shipment without identifying buyers***

**4.1.22** Two Associates<sup>23</sup>, without approval of the Company, shipped (March-April 2005) three<sup>24</sup> consignments (1.37 lakh DMT) without identifying their buyers. The Company subsequently appointed (April 2005) General Nice Resources (Hong Kong) Limited as its agent for sale of these consignments on payment of 60 *per cent* of the sale value to the Company as advance. The Agent would pay the balance after selling the cargo and deducting expenses and agency commission. The Company did not obtain any security from the Agent.

**The Company lost Rs 4.64 crore due to post shipment sales at destination port through an agent.**

The Company raised three advance invoices of Rs 27.42 crore (US\$ 63.03 lakh) on the Agent and received (May 2005) the entire amount from the Agent. The Agent sold (May - July 2005) the IOF for Rs 38.64 crore (US\$ 88.83 lakh) and communicated to the Company, deduction of Rs 6.58 crore (US\$ 15.14 lakh) towards expenses, commission *etc.* Even after lapse of a year, the Agent had not paid the balance of Rs 4.64 crore to the Company (September 2006). In absence of any security, the possibility of recovery of Rs 4.64 crore was bleak.

### ***Non-recovery of dues from foreign buyers***

**4.1.23** It was noticed during audit that the recovery of Rs 26.19 crore (US\$ 60.21 lakh) towards consignments against LC was doubtful due to non-payment of vessel freight to the ship owners by Sea Quest, breach of contract by the Company and short raising of claims, as discussed in the subsequent paragraphs.

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<sup>21</sup> Gold Friday – I, Pacific Scorpio, Chang An, Yasa Aysen, Sea Elegance, Gulsar Ana, Zong Hai, Sea Boss – I, Gokan, Equinox Seas, Attar, Ontario & Urmila

<sup>22</sup> Mandarin Moon, Navison Bulker, Selendang Tiara, Saloos, Kalisto, Sagaing, Tanate & K. Silver

<sup>23</sup> Bharat Minmet Corporation Limited, Sayan International

<sup>24</sup> Navison Bulker, Selendang Tiara & Saloos

**The Company sustained loss of Rs 4.97 crore against export to a party.**

**4.1.24** Vessel MV Chang An was carrying a consignment for EFE (India) Limited, against LC. A foreign buyer, Rijahao Meji Trading Co. (RMT), filed an injunction for the Company's failure to supply IOF to them as agreed. The shipping documents relating to the vessel had to be delivered (December 2004) to the Court. Subsequent to the Company's settlement (July 2005) with RMT as discussed at Paragraph 4.1.30 below, the Company obtained the documents from the court. Meanwhile, Sea Quest had sold (August 2005) the IOF to Shanghai Commercial & Industrial Co., Shanghai **against forged** documents. Consequently, the Company failed to realise its dues and sustained loss of Rs 4.97 crore (US\$ 11.43 lakh).

**Although the Company's legal advisors had observed (September 2005) that this fraud was perpetrated with the connivance of the Company's officials, the Company did not investigate the matter to fix responsibility.**

**4.1.25** The freight remitted in respect of MV Eagle and MV Attar by the Company had not been received by the vessel owners (**Annexure - 29**) as discussed at Paragraph 4.1.18. Consequently, the vessel owner (MV Eagle) exercised their lien to auction and sell the cargo valued at Rs 11.76 crore (US\$ 27.05 lakh). In case of the second vessel the foreign buyer, on payment of freight to the ship owner took the delivery of the consignment. But it deducted Rs 2.94 crore (US\$ 6.75 lakh) from the dues payable to the Company towards freight paid to the ship owner. Thus, the Company sustained loss of Rs 14.70 crore (US\$ 33.80 lakh).

**The Company lost Rs 3.48 crore due to breach of contract.**

**4.1.26** The Company agreed (January 2005) to supply 80,000 WMT to China Sinosteel (Singapore) Pte. Ltd. (CSS) in two consignments. In terms of the agreement, CSS opened (January 2005) two LC for US\$ 53.37 lakh. One LC was reduced (February 2005) to 30,000 WMT at the Company's request. Immediately thereafter, the Company communicated to CSS that a vessel (MV Sea Boss – I) was carrying the consignment for CSS, although the consignment was actually meant for a different foreign buyer, World Resources Group (Hong Kong) Ltd (WRG). Consequently, when CSS realised that the cargo was for WRG, it filed an injunction (April 2005) for breach of contract. The Company had to pay (April 2005) compensation of Rs 3.48 crore to CSS.

**4.1.27** In respect of MV Agate, the Company raised (January 2005) short claim on the foreign buyer *i.e.* WRG of Rs 40.89 lakh (US\$ 0.94 lakh) towards vessel freight @ US\$ 23 per WMT for 61,921.20 DMT instead of 66,000 WMT, resulting in loss of Rs 40.89 lakh.

#### ***Exports without obtaining letters of credit***

**Loss of Rs 24.19 crore was incurred due to export at lower rates without LC.**

**4.1.28** The Company had eight valid LC of US\$ 2.64 crore from seven potential customers for supply of 3.71 lakh DMT<sup>25</sup>, between March and June 2005, at the rate of US\$ 60 to 87 per DMT. But the Company did not export against these LC. Instead, it exported (March- May 2005) 5.33 lakh DMT<sup>26</sup> at

<sup>25</sup> Iron content of 58 to 63.5 *per cent* at the rate of US\$ 60 to 87 per DMT

<sup>26</sup> Iron content of 57.34 to 63.78 *per cent* at the rate of US\$ 43 to 85 per DMT as per invoice

the rate of US\$ 43 to 75 per DMT valuing Rs 124.85 crore (US\$ 2.87 crore) in 13 consignments without irrevocable LC and confirmed buyers and sustained loss of Rs 24.19 crore (US\$ 55.60 lakh).

The summarised position of export without LC is given below :-

Sl. No.	Name of Vessel (M.V.)/ Sailing Date	Quantity (in DMT)	Gross invoice value	Invoice net of penalty & deduction	Actual realisation	Shipment made without firm buyers	Consignee as per GR/ shipping bill/ date	Actual consignee/ Contract date
1	MANDARIN MOON/ 21.03.2005	33,852	16.82	12.13	1.29	To order/ 21.03.2005	Shandong Foreign Trade/ 04.03.2005	Shanghai Allison Import & Export Co. Ltd./ 08.07.2005
2	NAVISON BULKER/ 23.03.2005	32,859	19.39	13.94	13.93	To order/ 23.03.2005	Shandong Foreign Trade/ 07.03.2005	General Nice Resources/ 22.04.2005
3	SELENDANG TIARA/ 06.04.2005	64,025	47.80	33.16	33.16	To order/ 06.04.2005	Varomet Ltd./ 28.03.2005	-do-
4	SALOOS/ 10.04.2005	40,307	21.64	15.95	15.95	To order/ 10.04.2005	General Nice Resources/ 07.04.2005	-do-
5	KALISTO/ 10.04.2005	37,448	23.03	22.57	8.44	Not available	Not available	New Fortune Group/ 23.05.2005
6	SAGAING/ 18.04.2005	10,428	6.26	5.57	5.57	To order/ 18.04.2005	Gains Trading Limited/ 12.04.2005	Shanghai Allison Import & Export Co. Ltd./ 29.07.2005
7	TANATE/ 18.04.2005	14,559	7.43	6.94	6.59	To order/ 18.04.2005	Gains Trading Limited/ 12.04.2005	Shanghai Allison Import & Export Co. Ltd./ 08.07.2005
8	XIN MAO/ 20.04.2005	61,935	34.81	34.48	34.38	Not available	Varomet Ltd./ 01.04.2005	Qingdao Dongping Minmetals/ 18.04.2005
9	MARITIME LIGHT/ 24.04.2005	61,938	26.63	19.91	Nil	To order/ 25.04.2005	Varomet Ltd./ 11.04.2005	Zhejiang Material Industry/ 04.08.2005
10	ARIEL/ 25.04.2005	30,229	14.81	12.14	12.14	To order/ 25.04.2005	Varomet Ltd./ 26.04.2005	Rizhao Meiji Trading Co./ 02.08.2005
11	MARITIME KING/ 05.05.2005	64,492	27.73	14.84	14.85	Not available	Varomet Ltd./ 16.04.2005	Rizhao Zhongrli Native Produce Co./ 27.07.2005
12	K. SILVER/ 07.05.2005	40,309	22.17	9.34	9.34	To order/ 07.05.2005	Not available	Antioch Singapore Trading Pte. Ltd./ 21.07.2005
13	ARHIMIDIS/ 13.05.2005	40,529	18.24	15.14	9.14	To order/ 03.05.2005	Not available	Rizhao Zhongrli Native Produce Co./ 02.08.2005
	<b>Total</b>	<b>5,32,910</b>	<b>286.76</b>	<b>216.11</b>	<b>164.78</b>			
	<b>Rupees in crore</b>		<b>124.74</b>	<b>94.01</b>	<b>71.68</b>			

It would be seen from the above table that :-

- The Company shipped 13 consignments without firm buyers and without irrevocable LC. After shipment of consignments, the Company identified the buyers and established contracts 12 to 114 days subsequent to despatch.

- Against twelve consignments (Nos. 1 to 4 & 6 to 13), the Company admitted claims of Rs 11.62 crore (US\$ 26.72 lakh) by the foreign buyers/ agents at destination ports towards customs penalty for delayed transmission of documents by the Company (Rs 4.43 crore), discharge expenses (Rs 64.82 lakh), storage fees beyond 30 days (Rs 1.27 crore), port fees/ penalty (Rs 1.17 crore), inland transport (Rs 2.04 crore), agency commission (Rs 1.79 crore) and other miscellaneous expenses (Rs 26.95 lakh). The Company, however, had not called for the requisite documents from the foreign buyers in support of these claims.
- On five consignments (Nos. 1, 3, 9, 11 & 12), despite the Company having remitted Rs 28.51 crore (US\$ 65.53 lakh) including Rs 24.67 crore (US\$ 56.72 lakh) to three vessel owners, the vessel owners claimed that they had not received freight charges and threatened to withhold/ auction the cargo. The foreign buyers made these payments and deducted from the dues (Rs 17.46 crore) to the Company as discussed at Paragraph 4.1.18.
- In respect of MV Arhimidis (No. 13), the vessel owner had exercised lien on the cargo for non-receipt of freight charges in respect of another vessel i.e. MV Aline that had never shipped IOF for the Company. The Company had guaranteed payment of freight on account of MV Aline for no reason on record. Under legal advice, the Company paid the owners Rs 2.61 crore.
- Due to violation of contracts and diversion of cargo by the Company, the recovery of Rs 14.81 crore (US\$34.04 lakh) against two consignments viz. MV Maritime Light and MV Kallisto, was doubtful as discussed in Paragraphs 4.1.29 and 4.1.30. Moreover, three foreign buyers (i.e. World Resources Group (Hong Kong) Limited, Varomet Limited and Swiss Singapore Overseas Enterprises Pvt. Ltd.) had initiated legal proceedings against the Company.

**Inept handling of export without LC led to loss of Rs 46.50 crore.**

Thus, due to inept handling of exports, the Company sustained loss of Rs 46.50 crore (US\$ 1.07 crore).

**The Company lost Rs 9.95 crore due to payment of additional custom duty and non-realisation of dues.**

**4.1.29** In respect of MV Maritime Light (No. 9), the entire amount (Rs 8.66 crore - US\$ 19.91 lakh) remained outstanding since one of the overseas buyers World Resources Group (Hong Kong) Limited had filed a suit for Rs 10.22 crore (US\$23.50 lakh) for the Company's failure to supply IOF against a contract with them and put the cargo under lien. In view of the lien, the buyer Varomet Limited, Cyprus was unable to lift the IOF. Thereafter, the Company entered (August 2005) into an agreement with Antioch Singapore Trading Pte Ltd. for sale of the cargo to Zhejiang Material Industry International Co. Limited, China. The new buyer was also unable to take delivery as the Company failed to release necessary surety to the Court and the entire amount (Rs 8.66 crore) remained unrealised. Further, the Company was liable to pay additional customs penalty of Rs 1.29 crore (US\$ 2.97 lakh<sup>27</sup>) since the IOF was still lying (January 2006) in the Chinese port (Tianjin).

<sup>27</sup> From 31 August 2005 to 15 February 2006

**Inept handling of an export consignment led to loss of Rs 6.15 crore.**

**4.1.30** A consignment was sent (April 2005) for Swiss Singapore Overseas Enterprises Pvt. Limited (SSOE) by MV Kallisto (No. 5), against their LC that had already expired in January 2005. The Company sold the IOF to RMT at Rs 7.17 crore (US\$ 16.48 lakh), at a rate that was 27 *per cent* lower than the rate offered by SSOE, leading to loss of Rs 2.65 crore (US\$ 6.09 lakh). Moreover, the Company allowed RMT to deduct Rs 3.50 crore (US\$ 8.04 lakh) towards compensation for consignment on MV Chang An, another vessel. This led to total loss of Rs 6.15 crore (US\$ 14.13 lakh).

#### **Profitability analysis of each consignment**

**4.1.31** The Company had not determined the profitability of each consignment of IOF exported. An attempt in audit was made to determine the profitability of each consignment as detailed in **Annexure - 31**. It would be seen from the Annexure that the Company incurred aggregate loss of Rs 94.57 crore on 23 consignments while earning profit of Rs 11.33 crore on 11 consignments.

**The Company incurred loss of Rs 83.24 crore on export of IOF.**

Thus, the Company sustained trading loss of Rs 83.24 crore on 34 export consignments with outstanding liabilities of Rs 233.23 crore to suppliers (Rs 5.30 crore) and to banks (Rs 227.93 crore) as well as receivables of Rs 147.38 crore from the Associates (Rs 65.51 crore), shipping agents (Rs 33.35 crore) and foreign buyers (Rs 48.52 crore) which were doubtful of recovery.

#### **Financing of Vessel Chartering**

**Financing of vessel chartering without approval of the Board ended up with unrealised dues of Rs 10.22 crore.**

**4.1.32** The MD had entered (December 2004) into a single page memorandum with Sea Quest valid for two years, under which the Company would release advance to Sea Quest, towards vessel freight for carrying IOF from India to China, on behalf of two<sup>28</sup> firms. According to the memorandum, Sea Quest would release the Bills of Lading to the firms only after the Company confirmed receipt of freight reimbursement, interest<sup>29</sup> on advance and margin of one US dollar per WMT from them. The BOD of the Company had not approved this activity. The Company did not enter into agreements with the two firms nor did it spell out the terms and conditions with Sea Quest through a formal agreement.

On the instructions of Sea Quest, the Company remitted (December 2004 - March 2005) freight advance of Rs 18.03 crore for four<sup>30</sup> vessels, to different foreign bank accounts. Under the memorandum, the Company was entitled to Rs 19.88 crore (US\$ 45.70 lakh) till March 2006.

It was noticed during audit that against dues of Rs 10.54 crore (US\$ 24.24 lakh), these two firms paid (January-February 2005) Rs 9.65 crore (US\$ 22.18 lakh) only to the Company towards first two vessels (MV Equinox Dawn & MV Aventurero DOS). Sea Quest released the Bills of Lading to

<sup>28</sup> Prosperity Steel (Asia) Company Limited, HongKong (PSAC) and Steven, Stephan & Tony International Trading, Shanghai (SSTIT)

<sup>29</sup> From the date of release of fund till reimbursement

<sup>30</sup> MV Equinox Dawn, MV Aventurero DOS, MV Darya Bhakti & MV Arnes

them without the Company's confirmation. Instead of taking action against Sea Quest, the Company financed two more vessels against which the entire amount of Rs 9.33 crore (US\$ 21.45 lakh) was outstanding. As a result, the Company was unable to realise Rs 10.22 crore, due to failure to enter into agreements.

#### **IOF stock lying at Indian ports**

**4.1.33** Since the Company had procured IOF without identifying the foreign buyers, 84,551 MT (value not ascertained) was lying at Haldia (74,051 MT) and Paradip (10,500 MT) ports for more than three months (as of April 2005). The Company, however, neither verified the physical existence of the stock nor succeeded in selling this stock. Consequently, lending banks undertook (August- September 2005) verification of stock at different locations at these two ports and found that in July 2005, the physical stock stood at 58,168 MT showing shortage of 26,383 MT at Haldia (15,883 MT) and Paradip (10,500 MT). No investigation into the matter had been carried out.

#### **Non - submission of prescribed returns and raising export benefit claims**

**4.1.34** The Company and its Associates were required to submit the prescribed returns to different regulatory authorities like the Reserve Bank of India and Director General of Foreign Trade. The Company was, however, unable to furnish duly acknowledged copies of the prescribed returns. Moreover, the Company neither ascertained the export benefits it was eligible to avail nor submitted any claims.

**The Company did not file returns with regulatory authorities.**

**Thus huge losses were inflicted on the Company by taking up export of iron ore fines without viability study, selection of Associates and shipping agents in a non-transparent manner, without verifying their credentials. Export Packing Credit was drawn against LC which were not executed, advances were released indiscriminately and payments to Associates and shipping agents were made without securing the Company's financial interest. There was double encashment of LC, violation of RBI directives and violation of contractual obligations. Basic principles of financial propriety, regularity and accountability were flouted. In view of the above, there is a need for a through investigation of all the transactions relating to the export of iron-ore fines, to fix responsibility for appropriate action.**

The preliminary findings were communicated to the Management on 12 July 2005 and discussed with the Managing Director of the Company on 13 July 2005. These matters were again communicated to the Government/ Management (April 2006).

The Government stated (July 2006) that *prima facie* there were various irregularities of functioning which could be pinpointed as extreme risk-taking and/ or motivated manipulation, only after examination. In the meantime, the Government had ordered a detailed investigation into the whole affair. The Company had also taken suitable administrative measures and the new MD had been inducted in February 2006. It was, however, noticed in audit that no

reshuffle of the Company's officials involved in these transactions had occurred (September 2006). Further, copy of the Government's order for initiating investigation was not furnished to Audit, though called for (July 2006). Further report is awaited.

**4.2 Loss due to fixation of higher milling charges and low conversion ratio of paddy to rice**

**West Bengal Essential Commodities Supply Corporation Limited suffered loss of Rs 5.84 crore in procurement of parboiled rice due to fixing higher milling charges and low conversion ratio of paddy to rice.**

On behalf of Government of India (GOI), the State Government purchases paddy and rice at prices notified by GOI at the beginning of each *Kharif* Marketing Season (KMS) for distribution to Below Poverty Line population. GOI notified prices *inter-alia* include the cost of paddy, gunny bags, handling, transportation, milling and storage charges based on the conversion ratio of paddy to parboiled rice at 68 *per cent*.

With a view to preventing distress sale of paddy by the farmers at the beginning of KMS, the State Government engaged (December 2002) West Bengal Essential Commodities Supply Corporation Limited (Company) for purchasing paddy from the farmers at GOI notified prices and for milling the same through designated rice mills for delivery of rice to the State Government/ Food Corporation of India.

**The Company suffered loss of Rs 5.84 crore by fixing higher milling charges and low conversion ratio of paddy to rice.**

During KMS 2002-03 and KMS 2003-04 the Company engaged 249 rice millers. It was noticed in audit that the Company paid milling charges at Rs 350 per metric tonne (MT) to the millers against the GOI notified milling charges of Rs 150 per MT. Similarly, against the notified conversion ratio of 68 *per cent*, the Company allowed conversion ratio of 63 *per cent* without the approval of GOI. So the Company made excess payment of Rs 1.86 crore towards milling charges of 93,109.40 MT paddy during KMS 2002-03 and KMS 2003-04. Further, due to fixation of lower conversion ratio of paddy the Company short received 4,655.46 MT parboiled rice valued Rs 3.98 crore.

Thus, fixation of milling charges at higher rates and lower conversion ratio resulted in a loss of Rs 5.84 crore in procurement operation.

The Management stated (August 2006) that no undue favour was extended to the rice millers as decision regarding milling charges and conversion ratio of paddy to rice was taken on the basis of instructions/ orders of the Food and Supplies department.

The reply is not tenable because the various elements of cost of procurement and conversion ratio fixed by GOI were binding on the State Government and its procurement agencies as they were acting on behalf of GOI. Without any order from GOI, the Company allowed higher rates for milling charges and relaxed conversion ratio resulting in loss of Rs 5.84 crore to the Company.



The matter was reported to the Government (April 2006); their reply had not been received (September 2006).

#### **4.3 Loss on high sea sales of copper and zinc**

**West Bengal Essential Commodities Supply Corporation Limited sustained loss of Rs 5.23 crore on high sea sales of zinc and copper due to lax monitoring, selection of wrong destination port, transferring the title of the goods without security, permitting their transfer to parties other than the designated end user as also allowing materials to be lifted against a post dated cheque, in contravention of the agreement.**

West Bengal Essential Commodities Supply Corporation Limited (Company) received (February/ April 2004) two *suo-moto* proposals from Nu-Lite Business Machine Private Limited (Associate) for import of 500 tonnes of zinc and 1,000 tonnes of copper cathodes for high sea sales to Infinity Electric Private Limited (IEPL) through the Associate. IEPL was to utilise these materials at its factory in Falta Export Processing Zone, Kolkata. The Company neither evaluated the proposal nor verified the credentials of the Associate.

**The Company handed over title of goods valuing Rs 11.69 crore against post dated cheques of Rs 9.66 crore only.**

The Company opened (March/ May 2004) three Letters of Credit aggregating US\$ 24.34 lakh for import of 600 tonnes each of zinc and copper cathodes at Nhavasheva Port, Mumbai. Thereafter, the Company entered (April/ May 2004) into three agreements with the Associate for high sea sales of 605.66 tonnes zinc and 624.62 tonnes copper cathodes at CIF plus one and half to two *per cent* trading margin on CIF value and interest of two *per cent per annum* above the rate of interest levied by the suppliers so as to recover Rs 12.02<sup>6</sup> crore. The agreements provided for immediate transfer of title over the goods valuing Rs 11.69 crore by the Company to the Associate and extended the credit for 180 days without any security. The Company handed over the documents to the Associate in April/ May 2004 against three post dated cheques aggregating Rs 9.66 crore against receivables of Rs 12.02 crore, to be presented in September and November 2004.

**The Company was unable to realise the cost of goods imported due to dishonour of cheques given by the Associate, seizure of stock by custom authority and loss of 153 tonnes copper stock.**

Although the end user, IEPL had its factory near Kolkata, the Company decided to take delivery of the goods at Nhavasheva, thereby limiting its control over the goods. When the cargo arrived at Nhavasheva in May/ June 2004, the then Managing Director of the Company authorised (August 2004) the Associate to sell the goods and receive payment. In September 2004, the Associate's first post dated cheque for Rs 1.74 crore towards 300 tonnes of zinc was dishonoured on presentation. In October 2004, the Company learnt that the Associate had handed over 153 tonnes copper cathode (value : Rs 1.96 crore) to Prachi Scrap Trading Company Limited, which offered (October 2004) to pay only Rs 85 lakh to the Company. But the Company declined the offer since it had no title over the goods. Meanwhile, the Customs Authority, Mumbai had seized the stock of 300 tonnes of zinc for evasion of customs duty when IEPL tried to transport

<sup>6</sup> LC value – Rs 11.69 crore, margin on LC – Rs 21.52 lakh & interest for 180 days @ two per cent per annum – Rs 11.53 lakh

the materials to Kolkata. Subsequently, in November 2004, two remaining cheques for Rs 7.92 crore from the Associate were also dishonoured for want of fund.

In January 2005, the Company revoked the earlier agreements and signed (January 2005) a tripartite agreement with the Associate and IEPL. The agreement restored title over the goods to the Company. Due to poor response to the open tender for sale of the goods, the Company agreed (May 2005) to sell to IEPL 469.62 tonnes copper cathodes and 605.62 tonnes zinc at Rs 1.31 lakh and Rs 68,680 per tonne respectively (excluding custom duty, interest thereon, warehousing charges *etc.*) aggregating Rs 10.30 crore. The materials were to be lifted by IEPL in instalments against payment of advance. IEPL claimed that it had paid customs duty of Rs 47 lakh on these materials. The Company permitted IEPL to lift equivalent material without verifying the documents in support of their claim.

**Against the agreed price of Rs 10.30 crore the Company allowed IEPL to lift entire stock on receipt of Rs 7.19 crore only.**

The Company issued (May – August 2005) nine delivery orders for 605.62 tonnes of zinc and 445.50 tonnes of copper cathode to IEPL against receipt of Rs 7.19 crore in cash, Rs 2.10 crore by post dated cheque (30 March 2006) and Rs 47 lakh by way of adjustment. The Company failed to encash the cheque for Rs 2.10 crore as IEPL requested the Company not to present the cheque to the bank. Moreover, the whereabouts of 26.12 tonnes of copper valuing Rs 33.39 lakh were not on record and its existence could not be verified in audit.

Thus, against the total expenditure of Rs 12.42<sup>31</sup> crore (excluding interest), the Company realised only Rs 7.19 crore, thereby sustaining loss of Rs 5.23 crore due to the decision to bring in goods at Nhavasheva Port, Mumbai instead of Kolkata, transfer of title of the goods to the Associate without security, lack of monitoring, permitting the Associate to transfer the goods to parties other than IEPL as well as permitting IEPL to lift materials against post dated cheques in contravention of the agreement. The Company did not take any action against IEPL (September 2006).

The matter needs investigation and fixing of responsibility for these lapses leading to loss on this deal.

The matter was reported to the Government/ Management (July 2006); their replies had not been received (September 2006).

#### **4.4 Undue favour to a shipping agent**

**West Bengal Essential Commodities Supply Corporation Limited released freight in advance to a shipping agent without tangible security and paid excess freight leading to loss of Rs 4.58 crore (US\$ 10.53 lakh).**

**4.4.1** West Bengal Essential Commodities Supply Corporation Limited (Company) on receipt (November 2003) of a *suo-moto* proposal from one V. Rajagopal (Associate), Kolkata, entered into foreign trade in cement clinker

<sup>31</sup> CIF cost of 605.66 tonnes zinc (Rs 3.70 crore) and 624.62 tonnes copper cathode (Rs 7.98 crore) and Rs 74.08 lakh (February/ March 2005) towards storage and transportation charges

**The Company neither evaluated the Associate's proposal nor entered into formal agreements with him before venturing into the business.**

without evaluating the proposal independently or ascertaining the Associate's credentials. The Associate's proposal, *inter alia*, envisaged the appointment of a shipping agent in Singapore on behalf of the Company. The Company accepted (November/ December 2003) Sea Quest Shipping Pte Limited, Singapore as Shipping Agent without ascertaining their credentials. Moreover, the Company failed to enter into formal agreements with the Associate and the Shipping Agent.

Between December 2003 and February 2005, the Associate obtained eight *proforma* invoices from three<sup>o</sup> Indonesian exporters for purchase of 2.63 lakh tonnes of cement clinker at US\$ 19.50 to 25.75 per tonne (F.O.B.<sup>^</sup>) from two Indonesian ports. Accordingly, the Company opened (January 2004 – April 2005) eight letters of credit (LC) in their favour. Simultaneously, the Associate obtained 46 LC aggregating US\$ 70.30 lakh from 17 Bangladeshi buyers in favour of the Company for export of 2.23 lakh tonnes of cement clinker at US\$ 28 to 40 per tonne (C&F<sup>+</sup>). All the sales and purchases of cement clinker were made on the advice of the Associate without ascertaining the rates in the foreign markets. The Company accepted (December 2003) a fixture note<sup>\*</sup> from the Shipping Agent for shipment of cement clinker from Indonesia to Bangladesh on voyage charter at the freight rate of US\$ 6.50 per tonne, payable in advance.

The Company received 2.23 lakh tonnes of cement clinker and shipped (January 2004 - February 2005) the same in seven<sup>Y</sup> consignments from two<sup>N</sup> Indonesian ports and Nantong, a Chinese port to Chittagong port, Bangladesh. Against realisation of US\$ 70.30 lakh, the Company had incurred expenditure of US\$ 73.47 lakh towards clinker cost (US\$ 47.25 lakh), net freight (US\$ 24.94<sup>€</sup> lakh) and interest (US\$ 1.28 lakh) for eight<sup>△</sup> vessels and thereby sustained loss aggregating US\$ 3.17 lakh (Rs 1.38 crore).

Audit scrutiny of the records made available revealed the following deficiencies resulting in undue favour of US\$ 7.42 lakh (Rs 3.23 <sup>₹</sup>crore) to the Shipping Agent –

**The Company indiscriminately released unsecured advances to shipping agent who failed to place ships.**

- On the instruction of the Shipping Agent, the Company remitted US\$ 25.74 lakh in advance towards freight to ship owners without obtaining any security from the Shipping Agent. Out of the above, US\$ 2.09 lakh (Rs 90.92 lakh) were paid (December 2004) for a vessel (MV Mary 'G'), which was never provided by the Shipping Agent. The Company did not, however, take any action against the ship

<sup>o</sup> Indo Energi, PT Somen Tonasa and Semen Boswa Mars

<sup>^</sup> Free on board with vessel hire charges payable by the buyer

<sup>+</sup> Cost & freight

<sup>\*</sup> Indicates the details of the vessel like name, cargo capacity, load & discharge ports, etc.

<sup>Y</sup> M.V. Falcon Traders, M.V. Mirna, M.V. Winco Traders, M.V. Enforcer, M.V. Fatma Ana, M.V. Angelike'D', M.V. Claire

<sup>N</sup> Pandong & Biringkassi (six consignments)

<sup>€</sup> Freight payable of US\$ 26.43 lakh less refund/ retention of US\$ 1.49 lakh

<sup>△</sup> M.V. Falcon Traders, M.V. Mirna, M.V. Winco Traders, M.V. Enforcer, M.V. Fatma Ana, M.V. Angelike'D', M.V. Claire & M.V. Mary'G'

<sup>₹</sup> One US dollar being equal to Rs 43.50

owner/ Shipping Agent. Subsequently, it remitted (March 2005) further freight of US\$ 3.88 lakh on the instruction of the Shipping Agent for another vessel (M. V Claire) but the Company did not recover the excess freight (US\$ 2.09 lakh) paid earlier.

**The Company incurred avoidable freight charges of Rs 2.32 crore due to import of cargo on time charter instead of on voyage charter.**

- The Company accepted the Shipping Agent's freight rate of US\$ 6.50 per tonne for shipment from Indonesia to Bangladesh on voyage charter<sup>32</sup>. It, however, shipped first three (M. V. Falcon Traders, M. V. Mirna and M. V. Winco Traders) consignments from Indonesia on time charter<sup>33</sup> at freight of US\$ 21.14, US\$ 9.50 and US\$ 12.12 per tonne respectively. The remaining consignments (M. V. Enforcer, M. V. Fatma Ana and M. V. Angelike 'D') from Indonesia were shipped on voyage charter against freight of US\$ seven per tonne. Thus, decision to ship the first three consignments on time charter instead of on voyage charter, resulted in avoidable payment of freight of US\$ 5.33\* lakh (Rs 2.32 crore), after refund/ retention of US\$ 1.49 lakh.

**4.4.2** The Associate proposed (April 2004) to the Company for entering into time charter of a vessel (M.V. Mirna) for five months with the Shipping Agent, to ship cement clinker on behalf of other traders. The proposal envisaged five voyages to ship 22,000 tonnes per voyage to recover freight at US\$ 25 per tonne from other traders. The freight charges realised were to be remitted to the Company by the Shipping Agent. The Company was to remit vessel hire charges fortnightly to the ship owner.

**The Company extended undue benefit of Rs 1.35 crore to the shipping agent by not adjusting earlier advance while making subsequent payment.**

Without referring the matter to the Board of Directors, the then Managing Director entered (April 2004) into an agreement with the Shipping Agent. On the instructions of the Agent, the Company remitted US\$ 3.11 lakh to the vessel owner<sup>34</sup> towards a fortnight's vessel hire charges without any security. Thereafter the Company neither received remittances for freight realised nor fortnightly charter invoices from the Shipping Agent. The Company raised (June 2004) a claim of US\$ 3.39 lakh including US\$ 0.28 lakh towards interest and administrative charges on the Shipping Agent but received no response. Despite this, the Company further remitted (December 2004 to March 2005) US\$ 7.87 lakh on the instructions of the Shipping Agent as freight charges towards cement clinker shipped from Indonesia to Bangladesh. Thus, the Company extended undue benefit of US\$ 3.11 lakh (Rs 1.35 crore) to the Shipping Agent.

The Company's malfeasance resulted in loss of US\$ 10.53 lakh (Rs 4.58 crore) due to payment of excess freight as well as non recovery of freight receivable from the Shipping Agent.

The matter needs to be investigated for fixing of responsibility on the part of the officials involved.

<sup>32</sup> Shipment on tonnage basis

<sup>33</sup> Shipment hiring the ship for fixed time irrespective of the cargo shipped

\* Gross freight of US\$ 12.62 lakh less refund/ retention of US\$ 1.49 lakh and freight on 82,809.439 tonnes clinker @ US\$ seven per tonne

<sup>34</sup> Emerald International Maritime S.A.

The matter was reported to the Government/ Management (July 2006); their replies had not been received (September 2006).

#### **4.5 Loss on export of rice to Bangladesh**

**West Bengal Essential Commodities Corporation Limited suffered a loss of Rs 1.34 crore due to release of advances without security and lack of control over export of rice to Bangladesh.**

On receipt of a *suo-moto* proposal (October 2004) from Nishant Export Private Limited (NEPL) Kolkata, West Bengal Essential Commodities Supply Corporation Limited (Company), without inviting any tender and ascertaining the credentials of NEPL, appointed them, as Associate for procurement, transportation, handling and export of 4,000 MT of rice and 3,600 MT of maize to Bangladesh. The agreement entered into with NEPL, however, did not mention the specification and quality of rice to be procured and exported. Three post dated cheques (PDCs) aggregating Rs 25.71 lakh were submitted (December 2004) by NEPL towards indemnity for loss and damages suffered, if any, by the Company in the event of its failure to execute the order.

The agreement, *inter-alia*, provided that the Company would invest 95 *per cent* of the basic price of the rice and maize and NEPL would bear the balance five *per cent*. Further, NEPL would give a post dated cheque to the Company equivalent to 95 *per cent* of basic price to be invested by the Company. The Company would realise 1.5 *per cent* of FOB value from export proceeds towards administrative and overhead expenses along with interest at the rate of eight *per cent per annum* on invested fund.

The Company received (November 2004) two letters of credit from Taz & Co. Pvt. Limited., and Salem Brothers, (SB) Bangladesh aggregating US\$ 9,22,500 (US\$ 4,61,250 each) for export of 4,500 MT of non-basmati rice. As per the LC, the export was to be made through Malda on 3 January 2005 and Bongaon on 6 February 2005.

Audit observed that the Company, without taking any security, paid (October–December 2004) Rs 3.92 crore to eight parties through NEPL towards the cost of rice and freight. NEPL supplied only 635 MT rice through Malda and 2,055 MT rice through Bongaon within the scheduled date. Thereafter, SB refused to accept the residual stock of 1,615 MT at Malda border due to deterioration in the quality of rice stored at Malda. In case of Bongaon, the handling agent withheld the residual stock of 195 MT due to non-payment of its charges by NEPL.

On its failure to supply through Malda, NEPL arranged (May 2005) another LC from Ishaq Ahmed, Bangladesh for export of 1,000 MT non-basmati rice valuing US\$ 1.80 lakh. Out of the available stock of 1,615 MT, NEPL exported only 521 MT, while the balance quantity was rejected by Ishaq Ahmed due to substandard quality. NEPL sold (May/ June 2005) 785 MT sub-standard rice for Rs 26.69 lakh but did not remit the sale proceeds to the Company. After a lapse of one year, on the basis of an Audit Query, the Company undertook (May 2006) physical verification which revealed that

there was no stock of rice at Malda godown, as NEPL had disposed of the stock of rice in June 2005 itself.

**Irregular selection of associate, release of unsecured advance coupled with lax monitoring caused loss of Rs 1.34 crore to Company.**

The Company realised Rs 2.79 crore from export proceeds during January 2005 to August 2005 against the total expenditure of Rs 4.13 crore<sup>€</sup> and thereby sustained loss of Rs 1.34 crore. The Company also failed to encash PDCs (Rs 25.71 lakh) to reduce the loss to that extent, as PDCs were not traceable. The Company did not take any legal action against NEPL for indemnifying the losses sustained by it.

Thus, due to irregular selection of associate, coupled with indiscriminate release of advance through the associate without security and lax monitoring over the export, the Company suffered loss of Rs 1.34 crore\*.

The matter was reported to the Government/ Management (July 2006); their replies had not been received (September 2006).

#### **4.6 Undue favour to a business associate**

**West Bengal Essential Commodities Supply Corporation Limited released advances without security to Maa Sarada Export, a business associate, and failed to monitor their recovery resulting in non-recovery of Rs 1.26 crore.**

On receipt of a *suo-moto* proposal (May 2004) from Maa Sarada Export (Associate), West Bengal Essential Commodities Supply Corporation Limited (Company) entered (May 2004) into an agreement appointing them as the Company's Business Associate for procurement, transport, handling and supply of different varieties of cotton throughout West Bengal, for a period of six months.

The agreement, *inter alia*, provided that the Company would pay to the Associate Rs 41.46 lakh as working capital in lieu of a post dated cheque of the same amount as Security Deposit and after completion of each and every consignment, the Company and its Associate would share the divisible surplus. The agreement, however, did not specify (a) the price at which cotton would be supplied by the Associate, (b) the basis for determination of divisible surplus, (c) the rate of interest payable on unadjusted advances due from the Associate (the Company had to pay interest at the rate of 11 *per cent per annum* on cash credit utilised for payment of advance) and (d) submission of bank guarantee or any tangible security by the Associate for release of advance.

The Company supplied (June 2004 - March 2005) 2,716 bales of cotton (27 invoices valuing Rs 2.68 crore) to The Kalyani Spinning Mills Limited (KSML), through its Associate, against which a sum of Rs 2.53 crore was received from KSML. While the Associate supplied raw cotton at a cost of Rs 2.58 crore, the Company disbursed advances aggregating Rs 3.61 crore to

<sup>€</sup> Rs 3.92 crore advance and interest of Rs 0.21 crore

\* Principal amount of advance (Rs 1.13 crore) and bank interest (Rs 20.97 lakh)

the Associate against four post dated cheques (bearing dated from 30 June 2004 to 25 March 2005) aggregating Rs 2.10 crore.

Audit noticed that the Company did not reconcile the advances with the value of raw cotton supplied before releasing subsequent advances. Consequently, the Company failed to recover outstanding advances amounting to Rs 1.03 crore till March 2005. It belatedly decided (May 2005) to encash two cheques for Rs 60.48 lakh<sup>Ω</sup> and Rs 30 lakh dated 27 May 2005 and 25 March 2005 respectively while the remaining two cheques aggregating Rs 1.19 crore had become stale. Since the Associate had no balance in its account, the Bank dishonoured (May 2005) both the cheques.

**Indiscriminate release of advance without security led to loss of Rs 1.26 crore.**

Again, the Associate issued a fresh cheque of Rs 20 lakh dated 4 June 2005, which the Company returned at the request of the Associate in lieu of a cheque dated 4 July 2005. On presentation, this cheque was also dishonoured (July 2005) by bank due to inadequate balance.

Ultimately, the Company filed (19 August 2005) a suit against the Associate under Section 138 of the Negotiable Instruments Act, for dishonouring of the last cheque only. In respect of the dishonouring of the cheques valuing Rs 90.48 lakh, the Company served only an advocate's notice, but failed to file a criminal suit within the limitation of one month of dishonouring.

Thus, indiscriminate release of advances by the Company without security and lack of monitoring led to loss of Rs 1.26 crore (including interest on advance of Rs 22.74 lakh). Moreover, the Company's failure to lodge a criminal case for dishonouring of cheques within one month needs to be investigated to fix responsibility.

The matter was reported to the Government/ Management (March 2006); their replies had not been received (September 2006).

## **THE DURGAPUR PROJECTS LIMITED**

### **4.7 Loss due to faulty agreement**

**The Durgapur Projects Limited failed to replace the non-functional HP heaters of Units 3, 4 and 5 of its power station resulting in excess consumption of 1.45 lakh MT coal valuing Rs 18.02 crore, during January 2001 to March 2006.**

The detailed project report of renovation, upgradation and modernisation (RUM) of Unit 1 to 5 of the power station of The Durgapur Projects Limited (Company) *inter alia* envisaged (November 1995) replacement of all the major heat saving devices attached to the boilers of the generating units i.e. the inlet, outlet and bypass valves of High Pressure (HP) heaters.

<sup>Ω</sup> The cheque dated 30 November 2004 for Rs 60.48 lakh was replaced by a cheque of similar amount dated 27 May 2005

The Company entered into (September 1998) two turn-key contracts with Powerplant Performance Improvement Limited (PPIL) for execution of RUM at a total price of Rs 280 crore. The contracts included the supply, erection and commissioning of HP heaters for all the five units. The contracts stipulated that PPIL would ensure achievement of guaranteed parameters in respect of unit heat rate, plant availability and capacity upgradation of Unit 3 and 4 after the RUM work. In case of failure, PPIL would be liable to pay penalty upto 2.5 per cent of the contract price. Further, under the warranty clause, defects appearing within 12 months from the date of commissioning of each Unit in equipment/ materials supplied by PPIL, would be repaired / replaced. The contract did not, however, provide for consequential losses arising from non-performance of any equipment of the power plant.

After implementation of RUM, five units were commissioned between March 2000 and December 2001. But immediately after commissioning (August to December 2001) the HP heaters of Unit 3, 4 and 5 prematurely failed. PPIL, however, could not re-commission the HP heaters even after second time repair (April 2002). Consequently, these Units were running without HP heaters causing additional stress on the boilers and turbines leading to excess consumption of heat of 106.56 kilo calories (Kcal), 104.30 Kcal and 103.90 Kcal per kilo watt hour of generation by Unit 3, 4 and 5 respectively.

Since PPIL could not resolve the problem of non-functioning of HP heaters, the Company lodged (December 2003) an *ad hoc* claim of Rs 12.50 crore on it towards the cost of excess consumption of heat for non-performance of HP heater for the period from January 2001 to November 2003. PPIL, however, declined (January 2004) to absorb the loss sustained by the Company on the plea that the contract did not provide for any compensation due to non-performance of equipment.

Ultimately, the Company decided (May 2005) to restrict the claim to Rs 1.60 crore towards value of the materials fitted with HP heater during RUM and deducted the amount from the final bill of PPIL. The Company has not taken any action for installation of HP heaters so far (September 2006). As a result, Units 3, 4 and 5 continue to operate without HP heaters since re-commissioning and consumed 5,76,299 million Kcal of excess heat equivalent to 1.45 lakh MT coal valued Rs 18.02 crore, for generation of 5,495 million units electricity during January 2001 to March 2006.

Thus, due to failure of the management to insert a suitable clause in the contracts to compensate losses arising from non-performance of equipment as well as non-replacement of defective HP heaters, the Company had sustained loss of Rs 18.02 crore which would further increase till the HP heaters are replaced successfully.

While accepting the audit observation the Government/ Management stated (July 2006) that HP heater could not be replaced due to delay in ascertaining the design compatibility of new HP heaters with the existing system and that the job of replacement would be taken up after verification of compatibility of new HP heaters with the existing system.

**Absence of performance guarantee clause on equipment and non-replacement of defective HP heaters led to loss of Rs 18.02 crore.**



#### 4.8 Loss due to inadmissible concession allowed to a consumer

**The Durgapur Projects Limited sustained loss of Rs 6.53 crore on account of inadmissible concession allowed to a consumer due to wrong computation.**

Under the West Bengal Incentive Scheme, 1999, (Scheme) The Durgapur Projects Limited (Company) notified (February 1999) that the existing industries with high tension connections, which had undertaken expansion of capacity, would be entitled to concession on energy charges on additional consumption arising from expansion of plant and machineries, for a period of six years from the date of expansion. To be eligible for the concession, energy consumption should increase by a minimum of 25 *per cent* over the average monthly consumption of energy during the preceding twelve months.

For expansion of their production capacity, SPS Metalcast & Alloys Limited (SMAL), with an existing contract demand of 5,300 KVA, approached (February 2001) the Company for enhancement of contract demand initially to 6,000 KVA and thereafter to 8,000 KVA (December 2001) and 12,000 KVA (March 2002). After fulfilling the formalities, the Company signed (February 2001) an agreement with SMAL and enhanced the connected load to 6,000 KVA, 8,000 KVA and 12,000 KVA from February 2001, January 2002 and April 2002 respectively. The agreement also provided for charging concessional tariff from March 2001 as per the scheme.

Between March 2001 and April 2004 the Company allowed concession of Rs 14.51 crore to SMAL on the basis of increased energy consumption (129.21 million units), without working out the additional consumption attributable to the incremental load (69.59 million units) due to expansion of plant and machineries. In computing the same the Company had deducted Rs 20.62 lakh towards value of 12 months' average consumption prior to March 2001 as base consumption from the monthly energy bills of March 2001 onwards.

Audit, however, noticed (January 2006) that while computing average consumption for the preceding 12 months' (7.91 lakh units), the Company did not consider the extremely low monthly load factor of 22 to 28 *per cent* indicating below capacity operation by SMAL. In the absence of separate sub-meters to record the additional consumption arising from expansion of the plant capacity the Company should have apportioned the increase in energy consumption proportionately between the original and additional contract demand. Instead the Company reckoned the entire increase in energy consumption beyond 7.91 lakh units as arising from expansion of the capacity. Consequently, the load attributable to the original contract demand was clubbed with the increase in contract demand leading to unrealistic load factor<sup>35</sup> ranging from 70 to 563 *per cent* in respect of additional contract

**Working out the unrealistic load factor led to payment of inadmissible concession to a consumer of Rs 6.53 crore.**

<sup>35</sup> Load factor for a consumer is the ratio of actual energy consumed to the energy that would have been consumed had the consumer operated all connected plant, machinery and electrical equipment for 24 hours in a day throughout the month

demand instead of 42 to 81 *per cent*. Moreover, the load factor in respect of additional contract demand computed by the Company was in excess of 100 *per cent* in 34 out of 39 months. Load factor beyond 100 *per cent* is unrealistic as even if all the connected plant, machinery and electrical equipment were operated concurrently, it would aggregate to full contractual load *i.e.* load factor of 100 *per cent*.

Thus, by computation of unrealistic additional consumption due to expansion of plant and machineries the Company had allowed undue concession of Rs 14.51 crore towards the increased energy consumption against the admissible concession of Rs 7.98 crore, leading to loss of Rs 6.53 crore.

The Management stated (June 2006) that the Company acted in accordance with the Government's order applicable to concessional power tariff then in vogue and there was no scope to attach any weightage to the initial contract demand as considered in the audit para while computing the notional load factor and to arrive at the estimated loss.

The contention is not acceptable as : (i) observation was made on the basis of the order, *ibid*, which envisaged allowance of concession for the expansion for additional production *i.e.* on additional consumption arising out of expansion of plant and machineries, (ii) consumption for the additional production attributable to expansion of capacity was only eligible for concession. As the Company did not measure the incremental consumption for expanded capacity separately, it should have apportioned the actual consumption on the basis of maximum demand recorded in a month to see whether the consumer was eligible for concession for achieving 25 *per cent* increase in consumption and then the extent of consumption eligible for concession should have been determined. The Company, however, did not follow these procedures resulting in loss of Rs 6.53 crore.

The matter was reported to the Government (May 2006); their reply had not been received (September 2006).

#### **4.9 Avoidable payments of interest**

**The Durgapur Projects Limited paid avoidable interest of Rs 2.91 crore to Power Finance Corporation Limited due to delay in fulfilling the requirement of interest restructuring policy.**

To implement different projects of its power station, the Durgapur Projects Limited (Company) drew term loans aggregating Rs 282.20 crore at interest rates ranging from 10.5 to 16 *per cent per annum*, from Power Finance Corporation Limited (PFCL) during 1997-98 to 2003-04.

Under the Interest Restructuring Policy (IRP) of PFCL (May 2002) a borrower was to request PFCL to restructure the high interest bearing outstanding loans up to a limit of Rs 100 crore in a financial year and to pay 30 to 50 *per cent* of differential interest between existing rate and future rate of interest as interest restructuring premium up to the cut-off date. Once the borrower paid the

premium, PFCL would restructure the outstanding loan at reduced rate of interest. Further, the borrower had the choice to opt for restructuring of outstanding loan for a specified period of three years or for the remaining period of the loan.

The Company availed (August 2003) this opportunity for restructuring Rs 100 crore out of outstanding loan of Rs 244.64 crore as of August 2003 on payment of premium of Rs 2.94 crore. The rate of interest of restructured loan was accordingly reduced from 14/ 16 to 10.5 *per cent per annum*.

**Delay in furnishing information to PFCL on interest restructuring resulted in payment of additional interest of Rs 2.91 crore.**

In the subsequent financial year the Company again approached (October 2004) PFCL for restructuring of Rs 100 crore out of the balance portion of the loan (Rs 150.13 crore) with cut-off date as 15/ 30 November 2004 for calculation of premium. In reply PFCL asked (November 2004) the Company to intimate whether the Company had opted for restructuring of the loan for three years or for the remaining period of the loan along with the cut-off date for payment of interest restructuring premium. The Company did not respond to PFCL's queries immediately for reasons not on record. Ultimately, after lapse of seven months the Company supplied the relevant information to PFCL in June 2005 for restructuring of loan of Rs 100 crore with cut-off date as 25 July 2005 for calculation of premium. The Company paid (August 2005) premium of Rs 3.34 crore and accordingly, PFCL reduced the rate of interest from 13.5/ 14 to 9.50 *per cent per annum* effective from August 2005. As a result of eight months delay in restructuring the Company had to pay avoidable interest of Rs 2.91 crore at higher rate of 14 to 14.5 *per cent per annum* on the restructured loan of Rs 100 crore during December 2004 to July 2005.

The Government/ Management stated (May 2006) that there was a procedural delay of eight months on the part of PFCL for restructuring of loan, hence payment of interest of Rs 2.91 crore was not attributable to the Company.

The contention of the Government/ Management is not acceptable as the Company was well aware of the procedure followed by PFCL for restructuring of loan, even then it had inordinately delayed supply of information to PFCL resulting in avoidable payment of interest of Rs 2.91 crore.

## **WEST BENGAL FOREST DEVELOPMENT CORPORATION LIMITED**

### **4.10 Avoidable payment of interest**

**West Bengal Forest Development Corporation Limited injudiciously drew loan of Rs 27 crore for implementing a project and consequently paid avoidable interest of Rs 5.51 crore.**

With a view to implementing a project on Joint Forest Management (JFM) in five districts<sup>36</sup>, West Bengal Forest Development Corporation Limited (Company) entered into (March 1999) a Memorandum of Understanding

<sup>36</sup> Medinipore, Bankura, Birbhum, Burdwan and Purulia

(MOU) with the Directorate of Forest, Government of West Bengal. The input cost of the JFM project was estimated at Rs 43.95 crore.

To partly finance the input cost, the Company entered into (March 1999) a loan agreement with WBIDFC<sup>37</sup> for drawal of loan aggregating Rs 34.90 crore in a phased manner<sup>38</sup> at interest rate of 17 *per cent per annum*. The rate of interest was reduced to 14 *per cent per annum* with effect from January 2004. Subsequently, the Review Committee reduced (December 2002) the requirement of loan to Rs 30 crore. The Company, however, drew Rs 27 crore during 1998-99 to 2002-03 and repaid principal of Rs 17 crore alongwith interest of Rs 12.42 crore to WBIDFC till March 2005.

**Failure to restrict the drawal of high interest bearing loan resulted in avoidable payment of interest of Rs 5.51 crore.**

Review of the fund flow position for the period from 1997-98 to 2004-05 revealed that the Company had, during this period, huge balances ranging between Rs 5.57 crore and Rs 12.04 crore in its current accounts as well as Rs 4.65 crore to Rs 17.22 crore in fixed deposits with various banks. Further, the JFM had generated surplus since inception (1998-99) and the actual excess of cash inflows over cash outflows stood at Rs 30.95 crore during 1998-99 to 2004-05 against the projected deficit of Rs 5.11 crore. Had the Company encashed the fixed deposits and reallocated the surplus funds available in current accounts after maintaining an optimum limit of Rs 6.50 crore (being the bank balance of March 1999 i.e. at the time of commencement of JFM project) for meeting the input cost of JFM project, the Company could have restricted the drawal of loan to Rs 4.09 crore during 1999-2001, as detailed in the **Annexure-32**.

It was noticed in audit that the Company injudiciously drew loan aggregating Rs 27 crore without assessing the fund flow position. Further, after drawal the Company spent Rs 2.67 crore for the input cost of JFM and diverted the balance loan fund of Rs 24.33 crore for meeting expenditure of other divisions and head office (Rs 11.81 crore), repayment of loan and interest to WBIDFC (Rs 12.52 crore). This clearly indicated that funds were not borrowed for meeting the project requirement. Thus, injudicious borrowing led to avoidable payment of interest of Rs 5.51 crore<sup>39</sup>.

While accepting the audit observation that the loan was utilised for the purposes other than JFM, the Management stated (July 2006) that drawal of loan was a necessity due to inadequate cash flow during 1998-99 to 2002-03. The contention is not acceptable because the Company had positive cash flow of Rs 7.08 crore to Rs 7.67 crore during 1998-99 to 2002-03 before the drawal of loan and therefore it should have restricted the drawal of loan to Rs 4.09 crore.

The matter was reported to the Government (June 2006); their reply had not been received (September 2006).

<sup>37</sup> West Bengal Infrastructure Development Finance Corporation Limited

<sup>38</sup> 1998-99 – Rs 5.00 crore, 1999-2000 – Rs 9.40 crore, 2000-01 – Rs 12.00 crore, 2001-02 Rs 8.50 crore

<sup>39</sup> Total interest paid – Rs 12.42 crore less interest to be paid of Rs 0.70 crore for drawal of Rs 4.09 crore less loss of interest of Rs 4.05 crore due to premature encashment of fixed deposits

**WEST BENGAL ELECTRONICS INDUSTRY DEVELOPMENT CORPORATION LIMITED**

**4.11 Loss due to implementation of a project without work order**

**West Bengal Electronics Industry Development Corporation Limited implemented the Municipal information system in 10 Municipalities without obtaining the requisite work order/ executing any agreement with the Municipalities resulting in loss of Rs 1.38 crore.**

Webel Informatics Limited (WIL<sup>40</sup>) with its strategic technology partner Riddhi Management Service Private Limited (RMSP) had developed (March 1999) a Municipal Geographical Information System (GIS<sup>41</sup>) in Mahestala Municipality, South 24 Parganas. GIS is used as a planning instrument by the Municipality to channelise financial resources in development activities to benefit the citizens. As a part of its development activities, West Bengal Electronics Industry Development Corporation Limited (WEBEL) decided (September 1999) to implement GIS in 20 Municipalities in association with RMSP at an estimated cost of rupees three crore.

WEBEL issued (December 1999) a letter of intent to WIL for completion of GIS in 10 Municipalities<sup>42</sup> in association with RMSP in the first phase at a total cost of Rs 1.40 crore to be completed by December 2000. The Municipalities were selected based on the survey data furnished by RMSP. Accordingly, WIL entered into (December 1999) an agreement with RMSP for completion of the work within December 1999. WEBEL did not, however, obtain any work order or administrative approval from the Government before implementing the GIS in 10 Municipalities nor did it enter into agreements with the concerned Municipalities to ensure payment for the work.

During May 1999 to March 2001, WIL/ RMSP executed the work valuing Rs 1.12 crore and WEBEL submitted (June 2000/ March 2001) the claim of Rs 1.12 crore to the Information Technology (IT) Department. On the claim being referred, by the IT Department the Finance Department rejected (February 2002) the claim on the ground that neither had any work order been issued to WEBEL for execution of the work nor had any administrative approval been obtained. Despite this, WEBEL, without obtaining the work order and signing agreement with the Municipalities, continued implementing the work till March 2004 when the total expenditure stood at Rs 1.38 crore.

**The Company implemented GIS work without any agreements with Municipalities resulting in loss of Rs 1.38 crore.**

<sup>40</sup> A subsidiary of West Bengal Electronics Industry Development Corporation Limited (WEBEL)

<sup>41</sup> Under GIS the detailed maps for every ward had been digitised and linked to a wealth of information covering demography, housing, water bodies, road net work, industry, schools and public Health units

<sup>42</sup> Poojali, Budge Budge, Halisahar, Panihati, Chandannagar, Kurseong, Kalimpong, Bhatpara, Chamdani, Bidhannagar

WEBEL further requested (June 2002) the IT Department for release of fund but there was no response. Subsequently, after realising that the chances of the recovery of Rs 1.38 crore were bleak, the Board of Directors of WEBEL decided to make provision of Rs 1.38 crore as doubtful of recovery in its annual accounts for the year 2003-04.

While accepting the audit observation the Management stated (June 2006) that the Company incurred expenditure in anticipation of recovery, though no formal orders were received from the Government/ Municipalities.

Thus, hasty decision to implement GIS in 10 Municipalities without obtaining requisite work orders/ executing any agreement resulted in a loss of Rs 1.38 crore.

The matter was reported to the Government (May 2006); their reply had not been received (September 2006).

#### **4.12 Loss due to defective agreement conditions**

**In connection with the development of an Information Technology Park at Rajarhat West Bengal Electronics Industry Development Corporation Limited incurred loss of Rs 58.50 lakh due to defective agreement conditions.**

With a view to developing an Information Technology (IT) Park at New Town, Rajarhat, Kolkata, West Bengal Electronics Industry Development Corporation Limited (Company), purchased (June 2003) 10 acres (40,469.2 sqm) land from West Bengal Housing Infrastructure Development Corporation Limited (HIDCO). The Company obtained (November 2003) offers for construction and management of the IT Park and sold (December 2003) this land to the highest bidder DLF Universal Limited, Gurgaon (DLF).

Subsequently, DLF assigned (January 2004) its right to its subsidiary, DLF Commercial Developers Limited (DCDL), New Delhi and the Company signed (February 2004) an agreement with DCDL and an SPV, DLF Info City Developers (Kolkata) Limited (Developer), Gurgaon.

The agreement, *inter-alia*, provided that, the SPV would submit by July 2004, the building plans for approval to HIDCO before commencing construction. Further, in terms of HIDCO's building rules, the IT Park could have a built-up area of 60,703.8 sqm based on the permitted floor area ratio<sup>43</sup> (FAR) of 1.5 on payment of the applicable fees. The SPV would also be entitled to build additional area of 40,469.2 sqm on payment of additional building sanction fee at the rates of Rs 400 per sqm for first 20,034.6 sqm (up to FAR of two) and Rs 250 per sqm for next 20,034.6 sqm (FAR in excess of two and up to 2.5). It was noticed during audit (February 2006) that although the Company had obtained (07 November 2003) the draft rates for additional FAR, it failed to incorporate a condition in the agreement that these rates were yet to be approved

**Payment of a part of building sanction fee due to deficient contract management resulted in loss of Rs 58.50 lakh.**

<sup>43</sup> Proposed built up area to total land area

by the competent authority. Instead the Company, without obtaining the concurrence of HIDCO, assured (December 2003) the tenderers that the building guidelines detailed in the tender would remain valid for at least five years, even if HIDCO decided to revise the building rules for New Town, Rajarhat.

The SPV submitted (March 2004) the building plan to HIDCO for a built up area of 1,06,496.203 sqm based on FAR of 2.631. HIDCO claimed (December 2004) plan sanction fee of Rs 5.17 crore, on the basis of draft revised rates, which, on negotiation, was reduced to (December 2004) rupees four crore.

The SPV refused to pay rupees four crore on the ground that in terms of the rates incorporated in the agreement, it was liable to pay Rs 2.83 crore only. The Company, due to its failure to specify in the agreement that the building sanction fee mentioned there in was indicative, shared (March 2005) 50 *per cent* of the additional fee of Rs 1.17 crore while the balance 50 *per cent* was borne by the SPV. Thus, the Company sustained loss of Rs 58.50 lakh due to irregular payment of a part of the building sanction fee.

The Company stated (June 2006) that on its request, the SPV agreed to bear 50 *per cent* of the excess fee of Rs 1.17 crore, else full amount was to be arranged by the Company as per the agreement. The contention is not correct as the additional burden of Rs 58.50 lakh on the Company was due to deficient drafting of conditions in the tender/ agreement. Further, the Company had unauthorisedly intimated the bidders that the guidelines for the building rules were valid for five years without taking approval from HIDCO, while the same were under revision.

The matter was reported to the Government (May 2006); their reply had not been received (September 2006).

## **WEST BENGAL POWER DEVELOPMENT CORPORATION LIMITED**

### **4.13 Excess consumption of coal due to non-utilisation of additive**

**West Bengal Power Development Corporation Limited failed to utilise a tested coal additive to improve the combustion of coal leading to excess consumption of 8,892 tonnes of coal valuing Rs 1.13 crore, besides increasing pollution.**

Indian Institute of Technology, Bombay had developed (January 1999) an additive “*Thermact*” for improved combustion and reduced pollution. Abhitech Energycon Limited, Mumbai (AEL) was manufacturing and supplying *Thermact*, to thermal power stations of Maharashtra State Electricity Board (MSEB) since 2003. Based on AEL’s offer (February/ April 2004), officers of West Bengal Power Development Corporation Limited (Company) visited (June 2004) MSEB to assess utility of *Thermact*. Thereafter, the Company successfully tested (November – December 2004) *Thermact* and observed savings of 2.44 *per cent* in the unit heat rate, even with

low grade coal.

To further assess the benefits of adding<sup>3</sup> *Thermact* to coal, AEL offered (October 2004) a trial of 30 days at Unit – V of Bandel Thermal Power Station (BTPS) of the Company. Accordingly, BTPS also placed (March 2005) an order for supply of 5,500 Kg *Thermact* for Rs 16.67 lakh on trial basis and further purchased (May 2005) 495 Kg *Thermact* for Rs 1.50 lakh.

*Thermact* addition (April – May 2005) at Unit - V also achieved reduction of 2.39 *per cent* in the unit heat rate, besides reducing pollution. Despite this, Unit – V of BTPS, without adding *Thermact*, generated 629.36 million Kwh electricity between June 2005 and January 2006, using 3.72 lakh tonnes coal (Average calorific value : 4,951 Kcal per Kg) costing Rs 77.68 crore. The reasons for not using *Thermact* were not made known to Audit. By adding *Thermact*, the Company could have reduced coal consumption by 8,892<sup>Y</sup> tonnes and saved Rs 1.13 crore (after reducing Rs 73.36 lakh towards cost of *Thermact*), besides reducing pollution.

The Company called (August 2005) from AEL the details of supply of *Thermact* to various power stations and the results thereof. It was observed in audit that these details had already been made available (October 2004) to the Company by AEL. In September 2005, the Company placed another order for supply and delivery in three consignments of 15,300 Kg *Thermact* for Rs 46.36 lakh on trial basis at Unit – V of BTPS for a further period of three months. AEL supplied 5,100 Kg *Thermact* in October 2005, which was not utilised till January 2006. On this being pointed out (January 2006) in audit, the Company started further trial at Unit – V of BTPS from 22 February 2006.

Thus, non-utilisation of the additive “*Thermact*” resulted in excess consumption of coal valuing Rs 1.13 crore as well as increase in pollution to the environment.

Government/ Management stated (July 2006) that all the observations found during trial operation of additives were being examined for forming a total report for long term use of additives in future.

## **WEST BENGAL TRANSPORT INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED**

### **4.14 Loss of revenue**

**Injudicious rejection of the highest offer in the first tender by West Bengal Transport Infrastructure Development Corporation Limited and subsequent delay in entering into a contract for operation and maintenance of Budge Budge Truck Terminal, led to loss of revenue of Rs 58.67 lakh.**

With a view to eliminating kerb side parking of oil tankers, ensuring smooth

<sup>3</sup> One kilogramme of *Thermact* at Rs 300 per Kg plus one *per cent* Central Sales tax against ‘C’ Form with delivery being free for trial only with one Kg required for 15 tonnes of coal

<sup>Y</sup> Based on reduction of 2.39 *per cent* in heat rate for generation of electricity



movement of traffic and minimising accident hazards around the Budge Budge Oil Installation, the State Government decided (June 1998) to build a truck terminal at Budge Budge Municipal Town, South 24 - Parganas through West Bengal Transport Infrastructure Development Corporation Limited (Company). Accordingly, the Company prepared (August-December 1998) a project report for construction of the terminal at a cost of Rs 6.43 crore, to be partly funded through loan.

The Company signed (June 2000) an agreement with the Budge Budge Municipality for construction and operation of the terminal against recovery of parking fees till realisation of the principal and interest on loan. The Company completed (November 2003) the terminal, with a capacity of 226 trucks and tankers.

Meanwhile, against a tender (June 2003) for the operation and maintenance (O&M) of the terminal, the highest offer received was for annual contract fee of Rs 44 lakh. The Board of Directors (BOD), however, rejected the offer on the ground that the offer was below the annual outgo of Rs 65 lakh towards principal and interest and opted (June 2003) for re-tendering. While rejecting the highest offer the BOD had not taken cognisance of the project report which had mentioned that income would be negative in the first two years of operation.

The Company re-tendered (October 2004) after a delay of one year, when the highest offer received was for Rs 44 lakh from SG Citylink Private Limited (SGCPL). The Company accepted (January 2005) the offer and after receiving (March 2005) Rs 22 lakh towards contract fee (Rs 11 lakh) for the first quarter and security deposit (Rs 11 lakh) from SGCPL, entrusted (March 2005) the operation of the terminal to SGCPL from 4 April 2005.

Thus, the Company had sustained loss of revenue of Rs 58.67<sup>¶</sup> lakh due to injudicious rejection of the highest offer in the first tender and subsequent delay (December 2003 – March 2005) in entering into an O&M contract.

The Management accepted (August 2006) the audit observation.

The matter was reported to the Government (June 2006); their reply had not been received (September 2006).

## **THE KALYANI SPINNING MILLS LIMITED**

### **4.15 Injudicious decision to withhold social security benefit**

**The Kalyani Spinning Mills Limited delayed opting for the Employees' Pension Scheme, 1995 and failed to pay pension contribution of Rs 73.84 lakh from November 1995 to May 1999 resulting in payment of interest and damages of Rs 59.20 lakh.**

The Employees' Pension Scheme, 1995 (Scheme), framed under Section 6A of the Employees' Provident Funds and Miscellaneous Provisions Act, 1952

<sup>¶</sup> For 16 months @ Rs 44 lakh per annum

(Act), made it compulsory from 16 November 1995 that out of contributions payable by employers under the Act, an amount equal to 8.33 per cent of employees' pay would be remitted to the Employees' Pension Fund. Employers offering similar or better benefits to their employees under any other pension scheme were, however, eligible for exemption under the Scheme. In the event of default in payment of contributions by employers, damages up to 37 per cent per annum on the arrear amounts, along with interest of at least 12 per cent per annum on the default amount as well as damages not exceeding the amount in arrears were payable.

**The Company paid Rs 59.20 lakh as interest and damages due to its injudicious decision to withhold employees pension benefit.**

Since Kalyani Spinning Mills Limited (Company) had no pension scheme for its employees, it was mandatory for the Company to introduce the Scheme. Yet, the Company inexplicably sought (January 1996) permission of the State Government to introduce the Scheme. The Government refused (March 1996) permission on the pretext that 'a large number of employees of the Mills do not favour the said scheme'. After three years, the Government reversed (May 1999) its stand and directed the Company to introduce the Scheme, since the Company was not eligible for exemption. The Company had to deposit arrear contributions of Rs 73.84 lakh between May 1999 and February 2000. Besides it also had to pay Rs 59.20 lakh towards interest (Rs 6.57 lakh) and damages (Rs 52.63 lakh).

Thus, the injudicious decision of the Company to withhold pension benefit to its employees in violation of the Act, resulted in avoidable expenditure of Rs 59.20 lakh during October 2001 to March 2005.

Government/ Management accepted (May 2006) the audit observation.

## **WEST BENGAL RURAL ENERGY DEVELOPMENT CORPORATION LIMITED**

### **4.16 Undue benefit to contractors**

**The Company extended undue benefit of Rs 57.48 lakh to contractors by overstepping the provision of schedule of rates in execution of rural electrification works.**

As per the directives (February 2000) of the State Government, West Bengal Rural Energy Development Corporation Limited (Company) executes rural electrification (RE) works in the State through WBSEB<sup>44</sup> and Zilla Parishads by adopting the schedule of rates (SOR) for RE works of WBSEB. The SOR stipulated (February 2001) that while erecting pre-cast concrete (PCC) poles, no separate rate for loading, unloading and stacking of PCC poles at respective ends and transportation cost upto 35 kilometres from the district stores/ pole casting centres would be payable to erection contractors since these costs were included in the erection rates.

During 2003-04 and 2004-05, the Company deployed transport contractors

<sup>44</sup> West Bengal State Electricity Board

separately for transportation and handling of PCC poles in West Medinipore and Bankura districts and paid Rs 1.35 crore to them for transportation of 85,072 poles (West Medinipore : 48,724, Bankura : 36,348). Audit scrutiny revealed that in terms of the SOR, the Company did not deduct the transportation cost from the pole casting centres up to a distance of 35 kilometres while releasing payments to erection contractors in West Medinipore. The same was, however, deducted from the erection bills for Bankura district. This led to double payment of transportation cost of Rs 27.51 lakh in West Medinipore district.

Further, the Company failed to deduct the costs towards loading/ unloading and stacking of PCC poles from the erection contractors' bills of both the districts resulting in inadmissible payment of Rs 29.97 lakh (West Medinipore : Rs 20.52 lakh and Bankura : Rs 9.45 lakh).

Thus, the Company had made inadmissible payment of Rs 57.48 lakh to erection contractors due to failure to recover costs towards transportation, loading and unloading of PCC poles from the contractors.

While accepting the audit observation the Government/ Management stated (April 2006) that the Zilla Parishads had since been asked to recover such extra payments from the pending claims of the erection contractors and the position of recoveries would be placed before Audit. No recovery had, however, been made so far nor had any responsibility been fixed in the matter (September 2006).

## **WEST BENGAL TOURISM DEVELOPMENT CORPORATION LIMITED**

### **4.17 Undue benefit to a private party**

**West Bengal Tourism Development Corporation Limited considered the lower rate of occupancy ratio of the tourist lodge while fixing minimum annual guaranteed return recoverable from the contractor as well as underestimated the annual increase in guaranteed return and thereby sustained loss of Rs 35.35 lakh.**

Against the tenders invited (January 1995) for managing and operating the second Digha tourist lodge (Lodge) at new Digha, West Bengal Tourism Development Corporation Limited (Company) accepted the highest offer of Larica Resorts Private Limited (LRPL) and entered into (April 1995) an agreement for 21 years from 04 April 1995. The terms and conditions of the agreement *inter-alia* provided that : (a) LRPL would pay minimum licence fee (MLF) aggregating Rs 3.41 crore<sup>45</sup> or 10 *per cent* of turnover whichever was higher, during the entire agreement period, and (b) LRPL would complete the

<sup>45</sup> Minimum licence fee @ Rs 1.08 lakh for the first two years, @ Rs 15.00 lakh for the third to seventh year, Rs 17.00 lakh for the 8<sup>th</sup> to 12<sup>th</sup> year, @ Rs 19.00 lakh for the 13<sup>th</sup> to 17<sup>th</sup> year and Rs 21.00 lakh for 18<sup>th</sup> to 21<sup>st</sup> year

balance civil works of the lodge as well as provide furniture, fixture, electrical fittings, water and fan connection, air conditioning facilities at its own cost.

LRPL paid Rs 2.16 lakh towards MLF during 1995 – 1997 as per the agreement. But they paid Rs 14.92 lakh<sup>46</sup> only against the total dues of Rs 94 lakh during 1998-1999 to 2003-04, on the ground that they could not complete the entire balance work of the Lodge as the major portion of the land (6.19 acres) was not handed over to them and accordingly requested to revise the MLF.

The Company decided (January 2003) to revise the MLF after valuation of assets by an independent valuer. The Board of Directors had directed (December 2002) that the current rate of earnings at the first tourist lodge at old Digha should be taken as the standard for revising MLF with an increase by 10 *per cent* after every five years. The Company engaged (June 2003) Shri Sunit Kumar Mandal (Valuer) to value the assets and to recalculate the Minimum Annual Guaranteed Return (MAGR). After considering the valuation of assets and investments made by the Company and LRPL, the valuer recalculated (November 2003) the MAGR at Rs 7.70 lakh at occupancy ratio of 20 *per cent*, as detailed in the **Annexure-33**. The Company accepted the valuation and entered into (September 2005) a revised agreement for 21 years for payment of MAGR at the rate of Rs 7.70 lakh from 1998-99 with an increase by 7.5 *per cent* after every five years.

It was noticed in audit that the Valuer had taken the investment of LRPL as ‘fairly assessed at rupees one crore’ without specifying the actual expenditure incurred by LRPL. In absence of details of expenditure, the exact impact on the revised MAGR could not be quantified in audit. Further, in deviation of the direction of the Board, the Company accepted decrease in MAGR to 7.5 *per cent* in the revised agreement against 10 *per cent* in the original agreement. Besides the valuer had adopted the occupancy ratio of 20 *per cent* instead of the average occupancy of the first Tourist Lodge of old Digha, which was 39 *per cent*. Consequently, the revised MAGR was fixed at lower rate, leading to a loss of Rs 35.35 lakh from 1998-99 to 2005-06 (as detailed in **Annexure-33**) which amounted to undue benefit to LRPL.

The Government/ Management stated (August 2006) that the loss ascertained by Audit was based on hypothetical occupancy ratio since the comparison of occupancy rate of an old established lodge could not be drawn with that of incomplete new lodge. They further added that the Company had no infrastructure to re-assess the occupancy rate adopted by the valuer.

The contention is not acceptable as (i) average occupancy ratio of first lodge at old Digha was taken as benchmark because Board of Directors of the Company itself decided that rate of earnings of this lodge should be the standard for revising the MLF of second lodge, (ii) Audit ascertained the actual average occupancy ratio for hotels and lodges at New Digha area which was much higher (50 to 70 *per cent* during 2003-04 to 2005-06) than the benchmarked ratio (35 *per cent*) considered for loss suffered by the Company.

The matter needs to be investigated for fixation of responsibility.

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<sup>46</sup> Based on 10 *per cent* of monthly food and room sale for the respective year

## **EASTERN DISTILLERIES & CHEMICALS LIMITED**

### **4.18 Irregular payment of ex-gratia**

**Eastern Distilleries and Chemicals Limited paid Rs 26.07 lakh as ex-gratia to its employees in violation of Payment of Bonus Act and instruction of the Government.**

Under the provisions of the Payment of Bonus Act, 1961 (Act) and the State Government instructions (August 2000 – September 2002), no ex-gratia was to be paid for the years 1998-99 to 2001-02 to the employees by the Public Sector Enterprises (PSEs) who were not entitled to bonus under the Act on account of their salary/ wages exceeding Rs 3,500 per *mensem*. For the year 2002-03 onwards, State Government directed (September 2003-September 2005) that the employees of PSEs drawing emoluments exceeding Rs 3,500 per *mensem* would be entitled to ex-gratia of Rs 1,000 per head provided their emoluments did not exceed Rs 8,300 per *mensem* as on 31 March of 2003, 2004 and 2005.

It was noticed (May 2006) during audit that the Board of Directors of Eastern Distilleries and Chemicals Limited (Company), in addition to payment of bonus to eligible employees, approved ex-gratia payment of Rs 16.77 lakh for the years 1998-99 to 2001-02 to its employees whose salary/ wages exceeded the limit prescribed under the Act. Further, in violation of the instructions of the Government, the Company paid Rs 9.30 lakh as ex-gratia for 2002-05 at the rate of Rs 2,500 per employee instead of the maximum of Rs 1,000 irrespective of the ceiling on eligibility fixed by the Government i.e. emoluments not exceeding Rs 8,300 per *mensem*.

Thus, payment of ex-gratia amounting to Rs 26.07 lakh to ineligible employees was irregular and inconsistent with the provisions of the Act as well as instructions of the Government.

The Management stated (June 2006) that ex-gratia was paid to the employees as incentive to maintain productivity. The reply is not tenable as the payment was made in violation of the Act as also the Government instruction.

## **STATE-LEVEL PUBLIC SECTOR UNDERTAKINGS**

### **4.19 Lack of accountability due to delay/ non-placement of Annual Reports of Government Companies before the State Legislature**

As per Section 619-A (3) of the Companies Act, 1956, where the State Government is a member of a Company, the State Government shall cause the Annual Reports on the working and affairs of the Government companies, along with Audit Reports and comments or supplements to the Audit Reports by the Comptroller and Auditor General of India, to be placed before the State Legislature within three months from the date of Annual General Meeting (AGM) in which the accounts have been adopted. The Annual Report of a company consists of the Report by the Board of Directors on the working of

the company, as required under Section 217 of the Companies Act, 1956, annual financial statement for the year and the Auditors' Report thereon with the comments of the Comptroller and Auditor General of India. The placing of the Annual Reports before the State Legislature provides an opportunity to the Legislature to exercise control over the working of PSUs.

In this connection the following deficiencies in respect of 61 working Government companies were noticed in audit :

**400 annual reports of 59 Companies were not placed before Legislature.**

➤ The Annual Reports of most of the Companies had either not been placed or were placed belatedly due to delay in holding AGMs. As a consequence the Companies delayed the finalisation of subsequent accounts with further delays in placing the Reports even after holding AGMs. Out of 61 companies, only seven<sup>47</sup> companies placed their Annual Reports for 2004-05 before the State Legislature within March 2006 after delays of one to 3 months from the prescribed date (**Annexure-34**). Fifty nine Companies, under the control of 19 administrative departments, did not place 400 Reports which were pending from 1976-77 to 2004-05 (**Annexure-34**). It would be seen from the Annexure that the departments largely responsible for non/delayed placement of Annual Reports are Public Enterprises, Commerce & Industries, Cottage and Small Scale Industries, Information Technology, Fisheries, Animal Resources Development and Information & Cultural Affairs.

➤ There were delays in placing the Reports, ranging from one to five years by 21 Companies, six to 10 years by 12 Companies and 11 to 26 years in respect of 17 Companies (**Annexure-34**), mainly on account of delays in finalisation of accounts. Even after holding the AGMs, delays of four to 54 months were noticed in respect of the last five finalised accounts by all the 61 Companies.

**Four departments failed to place even a single report of seven Companies.**

➤ Seven<sup>48</sup> Companies had not placed even a single report before the State Legislature since their incorporation.

➤ 53 Companies had finalised accounts relating to different periods during 2005-06. The Annual Reports pertaining to these periods had not been placed in the Legislature till date (June 2006).

➤ The Committee on Papers in their First and Second Reports dated 6 and 26 July 2005 expressed displeasure over the recurring delays in submission of Reports and had observed that no serious concerted efforts had been made by the Administrative Departments in ensuring timely presentation of Annual Reports to the Legislature.

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<sup>47</sup> Sl. No. 22, 28, 33, 52, 55, 56 and 61 of Annexure-34

<sup>48</sup> Mayurakshi Cotton Mills (1990) Limited, Gluconate Health Limited, WEBFIL Limited, West Bengal Fisheries Corporation Limited, West Bengal Projects Limited, West Bengal Plywood & Allied Products Limited and West Bengal Handicrafts Development Corporation Limited under the control of Public Enterprises, Commerce and Industries, Fisheries and Cottage & Small Scale Industries departments

Delay/ non placement of Annual Reports, by Government Companies dilutes their accountability to the Legislature.

While furnishing the replies, Power and Food & Supplies departments were silent as to the reasons for delay in placement of Annual Reports. Replies from the remaining departments had not been received (September 2006).

#### **4.20 Failure to comply with mandatory Accounting Standards**

**Twenty-six selected companies persistently failed to comply with Accounting Standards in preparation of their financial statements.**

Accounting Standards (AS) are the mandatory standards of accounting recommended by the Institute of Chartered Accountants of India and are prescribed by the Central Government in consultation with the National Advisory Committee on Accounting Standards. The purpose of introducing AS is to facilitate the adoption of standard accounting practices by companies so that the annual accounts prepared exhibit a true and fair view of their state of affairs. By laying down rules and criteria for accounting measurements, AS seek to bring about uniformity in accounting practices while providing a reasonable degree of flexibility to take cognisance of differences in circumstances of different enterprises. AS reduce the accounting alternatives in the preparation of financial statements within the bounds of rationality, thereby ensuring comparability of financial statements of different enterprises for providing meaningful information to various users.

**Non-compliance with Accounting Standards vitiated the financial position of 26 Companies.**

Under Section 211 (3A) of the Companies Act 1956, it is obligatory for every company to prepare the financial statements (profit & loss account and balance sheet) in accordance with the AS. In case the financial statements of the Company do not comply with the accounting standards, such Companies shall disclose in their Financial Statements the fact and deviation from the AS, the reasons for such deviation and the financial impact of such deviation. A review of the financial statements and the Statutory Auditors' report thereon in respect of 26 selected Companies revealed non-compliance with one to four Accounting Standards as detailed in **Annexure-35**.

It would be seen from the **Annexure** that:

- Two<sup>st</sup> companies did not follow AS 1 which deals with disclosure of significant accounting policies in preparing and presenting financial statements.
- Six<sup>th</sup> companies did not comply with AS 2 relating to determination of the value at which inventories are carried in financial statements until the related revenues are realised and provides that inventories should be valued at the lower of cost or net realisable value.

<sup>st</sup> Sl. Nos. 5 & 9 of Annexure-35

<sup>th</sup> Sl Nos. 1,2,3,4,7 & 8 of Annexure-35

- Two<sup>¶</sup> companies did not follow AS 5 which deals with prior period and extraordinary items and changes in Accounting Policies.
- Three<sup>‡</sup> companies did not adhere to depreciation accounting policy in compliance with AS 6.
- Four<sup>§</sup> Companies prepared the financial statements without considering the provisions of AS 9 which states that revenue must be recognised, if collection is reasonably expected at the time of rendering of services.
- Two<sup>⊗</sup> companies accounted for the Fixed Assets without considering the provisions of AS 10.
- Two<sup>⊕</sup> companies persistently flouted AS 12 which deals with method of accounting for Government grants relating to capital or revenue purposes.
- Out of the 26 companies which finalised their previous years' accounts as of March 2005, twenty<sup>∞</sup> companies persistently violated AS 15 which deals with accounting for retirement benefits to employees (viz., provident fund, pension, gratuity, leave encashment *etc.*) and provides that the contribution payable by the employer towards retirement benefits should be charged to statement of Profit and Loss for the year on accrual basis and the accruing liability should be calculated on actuarial basis.
- Two<sup>€</sup> companies did not account for the taxes in accordance with AS 22 which deals with Accounting for Taxes on Income.

The preparation of accounts without complying with the mandatory Accounting Standards vitiated the financial position and working results of these companies in the respective years.

The matter was reported (June 2006) to the Government; their replies had not been received (September 2006).

### **Statutory corporations**

### **WEST BENGAL STATE ELECTRICITY BOARD**

#### **4.21 Loss due to undue benefit to the contractor**

**West Bengal State Electricity Board suffered loss of Rs 12.52 crore towards payment of additional interest due to non-recovery of excess payment of Rs 41.77 crore to the contractor.**

West Bengal State Electricity Board (Board) entered (July 2001) into a

<sup>¶</sup> Sl. Nos. 7 & 8 of Annexure - 35

<sup>‡</sup> Sl. Nos. 5, 6 & 7 of Annexure - 35

<sup>§</sup> Sl. Nos. 1,5,8 & 12 of Annexure - 35

<sup>⊗</sup> Sl. Nos. 7 & 11 of Annexure - 35

<sup>⊕</sup> Sl. Nos. 5 & 10 of Annexure - 35

<sup>∞</sup> Sl. Nos. 1,3,4,5,8,10,13,14,15,16,17,18,19,20,21,22,23,24,25 & 26 of Annexure - 35

<sup>€</sup> Sl. Nos. 12 & 13 of Annexure-35



contract with Taisei Corporation, Japan (Contractor) for execution of main civil works of Purulia Pump Storage Project at a cost of Rs 411.60 crore and Japanese yen of 778.15 crore. The project was financed out of loans from JBIC<sup>49</sup> carrying interest of 14.5 *per cent per annum*. The contract *inter alia* provided for payment of price adjustment to the contractor only for the increase/ decrease in the cost of labour, fuel, cement, steel, miscellaneous components of works involving Indian currency. No payment towards price adjustment would, however, be allowed to the contractor on any component involving foreign currency as well as equipment involving Indian currency.

**Project Manager violated the contract and allowed price adjustment to the contractor.**

The contractor commenced the work from March 2002 and raised the bills from July 2002 to March 2003 without any claim for price adjustment on the foreign currency components of the works. But from April 2003 onwards, it started claiming price adjustment on these components also. The Project Manager (PM), without referring the matter to the Board of Members, agreed (May 2003) in a meeting with the Contractor and consultants of the project that the foreign currency portion of the contract would be converted into Indian currency and then price adjustment would be applied thereon as per the contract. Thereafter, the PM, in violation of the contract, paid the price adjustment claims of Rs 41.77 crore on foreign currency components for the period from April 2003 to March 2005.

**Board did not call for any explanation from the consultant for its diametrically opposite view on price adjustment.**

The Board sought (March 2005) the opinion of the Consultant of the project and a Member (third party) of the governing body of Indian Council of Arbitration. Both the Consultant and the third party opined (August 2005) that as per the contractual provision no price adjustment on foreign currency components was applicable. The Board stopped payment of price adjustment on foreign currency from April 2005. But, it did not call for any explanation from the consultant regarding its earlier view taken in the meeting (May 2003).

The Board decided (December 2005) to recover the excess amount of Rs 41.77 crore from the pending/ forthcoming bills of the Contractor. On being approached (January 2006) by the Contractor to effect the recovery only from the retention money on the ground that recovery from bills would have severe impact on the financial liquidity of the Contractor and consequently hinder the progress of the project, the Board of Members acceded (March 2006) to the request of the Contractor and thereby deferred the recovery.

Thus, payment of price adjustment claims of Rs 41.77 crore to the Contractor in contravention of contractual provisions and subsequent favour by way of deferring the recovery of excess payment led to additional payment of interest of Rs 12.52 crore (at the rate of 14.5 *per cent per annum*) for the period from April 2003 to March 2005.

The Government/ Board stated (June 2006) that to avoid any legal complication and delay in completion of the project the recovery from the contractor was kept pending. The contention is not acceptable as the Board

<sup>49</sup> Japan Bank for International Corporation

had already obtained legal opinion and the over payment made was clearly recoverable.

## **WEST BENGAL FINANCIAL CORPORATION**

### **4.22 Loss due to non/ under recovery of prepayment charge and interest**

**West Bengal Financial Corporation sustained loss of Rs 3.23 crore due to non/ under-recovery of prepayment charge and interest from seven borrowers.**

**4.22.1** In terms of the standard loan agreement, between the borrower and West Bengal Financial Corporation (Corporation), the borrower, has no right to prepay outstanding principal amount except with the prior approval of the Corporation. To recoup the loss of interest for such prepayment, the Corporation may realise prepayment charge from the borrower.

On scrutiny of 12 loan accounts relating to seven borrowers, it was noticed in audit that between January and November 2004 these borrowers had prepaid outstanding principal aggregating Rs 31.34 crore and paid Rs 61.12 lakh to the Corporation as prepayment charge. The Corporation was required to charge the 'loss of prospective interest', equal to the difference between the original lending rate and the present lending rate and then discounted at the present lending rate for the unexpired period of loan.

Audit noticed that while calculating the loss of prospective interest as well as for discounting such loss of interest, the Corporation had adopted higher discounting rate (present lending rate) at 13/ 9.50 *per cent per annum* instead of 11 and nine *per cent* in case of five<sup>50</sup> borrowers and considered lower original lending rate at 13 *per cent per annum* against 18.50 *per cent* in case of one borrower<sup>51</sup>. Consequently, the Corporation received prepayment charge aggregating Rs 61.12 lakh from these borrowers against the recoverable amount of Rs 2.24 crore. Further, the Corporation did not recover any prepayment charge aggregating Rs 1.25 crore from two borrowers<sup>52</sup>, for which no reason was on record.

Thus, under/ non-recovery of prepayment charge resulted in a loss of Rs 2.88 crore which led to undue benefit extended to the borrowers.

**4.22.2** To restrict exodus of borrowers from the Corporation due to higher rate of interest as compared to commercial banks, the Corporation reduced (July 2003) the annual rate of interest from 16 *per cent* and above to 13 *per cent*. The borrowers who were entitled to avail the lower rate of interest would not, however, be allowed to prepay outstanding principal. In case of prepayment, the borrower would be liable to pay interest at the original rate with retrospective effect. The Corporation decreased the rate of interest from

<sup>50</sup> Amicus Oil and Chemical Pvt. Ltd., Ashirbad Cold Storage Pvt. Ltd., Shyam Ferro Alloys Ltd., Ambaji Green Tree Syringe Pvt. Ltd., Adhunik Ispat Pvt. Ltd.

<sup>51</sup> Burdwan Scan Centre Pvt. Ltd.

<sup>52</sup> Shyam Ferro Alloys Ltd., Shree Mahalaxmi Vinimoy Pvt. Ltd.

**Loss to the Corporation due to change in the pre-payment norms to benefit the borrowers.**

13 to 11 *per cent* from 1 April 2004 and further to nine *per cent* from 15 October 2004. But it did not stipulate in the order that interest be realised at the original rate from the borrowers in case of the prepayment by them, as envisaged in the July 2003 decision.

It was noticed during audit that four borrowers<sup>53</sup> availed (March 2002-June 2004) the reduced rate of interest at 11 to 15 *per cent* per *annum*. Though these borrowers enjoyed the benefit of lower rates of interest, they were allowed to prepay the outstanding principal aggregating Rs 21.48 crore during January to November 2004.

Thus, the Corporation had not only sustained loss of interest of Rs 34.63 lakh but had also flouted the objective of lowering the interest rate to restrict the exodus of the borrowers.

The Government/ Management stated (August 2006) that prepayment norms were diluted to check the 'flight' of the borrowers as the Corporation's lending rates were higher than the banks. It further added that the Corporation did not suffer any loss in respect of six borrowers for under recovery of pre-payment charges as the same was calculated by discounting the difference between prevalent lending rates and applicable lending rates of the concerned borrower instead of contractual interest rates because the borrowers had already been enjoying the reduced interest rates.

The reply is not tenable because (i) the Corporation had diluted the pre-payment norms during April 2004 to August 2005 for seven borrowers but six of them prepaid the loans at the reduced rates of interest instead of original rate of interest; (ii) it lowered their lending rates bringing them at par with bank rates from October 2004, but it revised its repayment norms only from August 2005. By that time two large borrowers had already prepaid loans of Rs 17.70 crore without paying due prepayment charges of Rs 2.09 crore; and (iii) management changed the method of calculating prepayment charges without the approval of its Board of Directors which led to under-recovery of prepayment charges of Rs 1.03 crore from the six borrowers. The reply is, however, silent as to the reasons for non-recovery of prepayment charge of Rs 1.25 crore from two borrowers.

## **WEST BENGAL INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION**

### **4.23 Defective cash management system**

**Between August 1997 and March 2006, West Bengal Industrial Infrastructure Development Corporation invested/ reinvested Rs 20.09 crore in term deposits of short tenure at lower rates of interest as well as parked fund in inter-corporate deposit at lower effective interest rates leading to loss of interest income of Rs 2.22 crore.**

The West Bengal Industrial Infrastructure Development Corporation Act, 1974 and the rules framed thereunder empowered the West Bengal Industrial

<sup>53</sup> Burdwan Scan Centre Pvt. Ltd., Ambaji Green Tree Syringe Pvt. Ltd., Shree Mahalaxmi Vinimoy Pvt. Ltd. and Adhunik Ispat Pvt. Ltd.

**The Corporation did not prepare cash forecasts and parked funds in short term deposits.**

Infrastructure Development Corporation (Corporation) to retain funds in current and deposit accounts with the State Bank of India and other banks approved by the Government of West Bengal (GoWB). Any fund in excess of the requirement is to be invested in the manner prescribed by GoWB. The Corporation, however, neither prepared cash forecasts nor periodically assessed the requirement of funds to identify surplus funds so as to maximise returns therefrom.

Audit scrutiny (January/ February 2006) revealed that -

- Between August 1997 and April 2005, the Corporation invested Rs 20.09 crore in 27 term deposits with nine<sup>φ</sup> banks for tenures ranging from 15 days to 39 months at interest rates of four to 11.50 *per cent per annum*. On maturity, the Corporation renewed these deposits on 66 occasions for further periods of 15 days to five years and earned interest aggregating to Rs 4.64 crore till March 2006. Had the Corporation parked these funds in term deposits of longer tenures since the beginning for the total period of initial investment and renewals, it could have earned interest amounting to Rs 6.38 crore, at higher rates of five to 12.50 *per cent per annum* applicable for longer tenures of four months to five years. Parking funds for short duration led to loss of Rs 1.74 crore.

Government stated (August 2006) that the Corporation had to invest fund in short term deposits in order to maintain liquidity for meeting immediate payment obligation. The reply is not tenable because in the instant cases funds were re-invested on maturity for long periods indicating that there was no immediate requirement of such funds.

- The Chief Executive Officer (CEO) of the Corporation, with the approval (December 2004) of the Board of Directors, agreed (January 2005) to park Rs 20 crore with West Bengal Industrial Development Corporation Limited<sup>†</sup> (WBIDC) as inter-corporate deposit for three years carrying interest at the rate of 6.50 *per cent per annum* compounded annually. On approval (21 February 2005) by the Government, the Corporation deposited (March 2005) Rs 20 crore.

Meanwhile, Allahabad Bank offered (23 February 2005) interest of seven *per cent per annum*, compounded quarterly, on term deposits of similar amount and tenure giving an effective annual yield of 7.19 *per cent*. On being approached by the CEO, WBIDC agreed (March 2005) to pay interest at seven *per cent* till 31 March 2005 and thereafter at a rate equal to the rate offered on term deposits by any nationalised bank for a period of three years or more. The Corporation followed up (June 2005) with WBIDC for an additional inter-corporate deposit of rupees

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<sup>φ</sup> Bank of India, Canara Bank, Central Bank of India, Hongkong and Shanghai Banking Corporation, Indian Overseas Bank, Union Bank, Oriental Bank of Commerce, Punjab National Bank & State Bank of India

<sup>†</sup> A Government company under the same Administrative department

four crore for 18 months at seven *per cent per annum* compounded annually.

Against interest<sup>‡</sup> of Rs 4.59 crore on inter-corporate deposit, the Corporation could have earned higher interest of Rs 5.07 crore on term deposit with Allahabad Bank for similar tenure. There was, thus, loss of Rs 47.86 lakh. The Corporation attributed (January 2006) placement of inter-corporate deposits with WBIDC as security and strategic requirements. The reply is not tenable since Allahabad Bank is a scheduled public sector bank with higher security.

The Government stated (August 2006) that remedial action had since been taken to avoid such venture in future.

Thus, the Corporation's imprudent cash management led to loss of interest income of Rs 2.22 crore.

## **WEST BENGAL STATE WAREHOUSING CORPORATION**

### **4.24 Loss due to allotment of land at the lower rental rate**

**West Bengal State Warehousing Corporation sustained loss of Rs 89.25 lakh due to allotment of land for storing containers without inviting tender and ascertaining prevailing market rate.**

West Bengal State Warehousing Corporation (Corporation) acquired (March 1985) 3.75 lakh square feet land from Calcutta Port Trust (CPT) on 30 years lease for construction of a warehouse at Haldia. The Corporation did not construct any warehouse on the leasehold land on the ground that profit from the said investment was estimated to be less than the bank interest accrued from the investment. In order to earn revenue from the leasehold land, the Corporation allotted (March 2000- March 2001) 4,000 square feet land to G. Q. Mondal (GQM), a private party, at a monthly rent of Rs 2.50 per square feet.

Meanwhile, Hindustan Engineering and Marine Corporation (HEMC) had approached (June 2000) the Corporation for allotment of one lakh square feet land for storing and repairing containers, at a monthly rent of rupee one per square feet. The Corporation, however, had decided to allot the land at a monthly rent of rupees two per square feet. On negotiation, HEMC increased (June 2000) the monthly rent to Re 1.50 per square feet. The Corporation did not accept this rate of HEMC and offered (September 2000) to allot the land to HEMC at a higher rate of Re 1.75 per square feet, which HEMC did not accept.

It was noticed during audit that after lapse of more than three years, the Corporation (based on the Managing Director's approval) allotted two lakh square feet land to GQM for storing containers with effect from

<sup>‡</sup> Interest at the rate of seven *per cent* till March 2005 on Rs 20 crore & 6.5 *per cent* thereafter till maturity in March 2008 and seven *per cent* till December 2006 on rupees four crore.

1 December 2003 at monthly rental charges of rupees one lakh (i.e. at the rate of rupee 0.50 per square feet per month) up to 31 March 2006. It was also noticed that the Corporation did not invite any tender nor did it verify the rental charges prevalent in the market. Again, GQM offered (June 2004) to utilise the entire balance 1.75 lakh square feet land at a monthly rent of rupees one lakh i.e. Re 0.57 per square feet per month. The Corporation again did not verify the market rate and entered into (July 2004) an agreement with GQM for allotment of 1.75 lakh square feet land at monthly rent of Re 0.57 per square feet with effect from 1 September 2004, against the rate of Re 1.50 per square feet offered by HEMC.

Thus, allotment of land at lower rate without inviting tender or finding out the prevalent rates as well as failure to accept the higher rate of HEMC resulted in loss of Rs 89.25 lakh<sup>54</sup> towards rental charges.

While accepting the audit observation the Management stated (June 2006) that even if the deal with HEMC had materialised the Corporation could fetch a revenue of Rs 42 lakh up to March 2006 because HEMC wanted only one lakh square feet of space. The contention is not acceptable because the Corporation had allotted the 3.75 lakh square feet space to GQM between December 2003 and September 2004 at Re 0.50/ 0.57 per square feet per month. Thus there was a loss of Rs 89.25 lakh during December 2003 to March 2006 due to allotment of land to GQM at substantially lower rates when a higher rate of Re 1.50 per square feet had already been offered.

The matter needs to be investigated for fixation of responsibility.

The matter was reported to the Government and the Management (May 2006); their replies had not been received (September 2006).

### **Follow-up action on Audit Reports**

#### ***4.25 Outstanding departmental replies on paragraphs appeared in the Audit Reports***

Reports of the Comptroller and Auditor General of India contain observations arising out of scrutiny of accounts and transactions of various Government companies and Statutory corporations. Therefore, it is necessary that the executive give appropriate and timely response to them. Finance Department, Government of West Bengal instructed (June 1982) all the administrative departments to submit explanatory notes to the West Bengal Legislative Assembly with corrective/ remedial action taken or proposed to be taken on the observations included in the Audit Reports within one month from the date of communication of laying of the Audit Reports in the State Legislature.

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<sup>54</sup> Rental charges at the rate of Re 1.50 per sq.ft. per month for two lakh square feet from Dec 2003 to March 2006 plus Re 1.50/ sq. ft./month for 1.75 lakh sq. ft. from September 2004 to March 2006 = Rs 1.34 crore *less* rental charges received on 2.00 lakh sq. ft. @ Re 0.50 per sq. ft. per month for 28 months from December 2003 to March 2006 and on 1.75 lakh sq.ft @ Re 0.57 per sq ft per month for 19 months from September 2004 to March 2006

Though the Audit Reports for the years 1998-99, 1999-2000, 2000-01, 2001-02, 2002-03 and 2003-04 were presented to the State Legislature in July 2000, July 2001, March 2002, July 2003, August 2004 and August 2005 respectively, 14 out of 19 departments, whose activities were commented upon did not submit their explanatory notes on 34 out of 144 paragraphs/ reviews as of September 2006, as indicated in **Annexure-36**. It would be seen from the annexure that the departments largely responsible for non-submission of explanatory notes were Public Enterprises, Commerce and Industries, Finance, Animal Resources Development and Tourism. Government did not respond to even reviews highlighting important issues like system failure, mismanagement, non-adherence to extant provisions, etc.

***Outstanding action taken notes on the Reports of the Committee on Public Undertakings (COPU)***

Reports of the COPU presented to the Legislature contain recommendations and observations on which administrative departments are required to submit their Action Taken Notes (ATNs) immediately after the circulation of the Reports. Even after the lapse of three to 85 months, five departments did not furnish the ATNs on 55 recommendations relating to 9 COPU Reports presented (April 1999-March 2006) to the State Legislature (**Annexure-37**).

**4.26 Response to the Inspection reports, draft paragraphs and reviews**

Irregularities/ shortcomings noticed during the periodical inspections of Government companies/ Corporations and not settled on the spot are communicated through the Inspection Reports (IR) to the respective heads of PSUs and the concerned departments of the State Government. The heads of PSUs are required to furnish their replies to the IRs through the respective heads of the departments within a period of six weeks. A half yearly report is sent to the Principal Secretary/ Secretary of the departments in respect of pending IRs to facilitate monitoring of the audit observations of those IRs.

The Inspection Reports issued up to March 2006 pertaining to 45 PSUs disclosed that 225 paragraphs relating to 154 IRs involving monetary value of Rs 1,183.14 crore remained outstanding at the end of June 2006, of which 69 IRs containing 76 paragraphs had not been replied to, though more than two years had elapsed. Even the initial replies were not received in respect of 46 paragraphs of 13 PSUs. The department-wise break up of IRs and audit observations as of June 2006 is given in **Annexure-38**. In order to expedite settlement of the outstanding paragraphs, Audit Committees were constituted in 16 out of 19 departments. These Committees settled 57 paragraphs in 28 meetings during 1997-2006. This is indicative of the lack of efforts by the executive/ administrative departments to ensure accountability.

Similarly, the draft paragraphs and the reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the administrative department concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. It was,

however, noticed that 10 draft paragraphs and one draft review forwarded to the various departments during March to August 2006, as detailed in **Annexure-39** had not been replied to so far (September 2006).

It is recommended that the Government should ensure that (a) procedure exists for action against the officials who failed to send replies to inspection reports/ draft paragraphs/ reviews as per the prescribed time schedule; (b) action to recover loss/ outstanding advances/ over-payment is taken within the prescribed period; and (c) system of responding to the audit observations is revamped.

**KOLKATA**  
The

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*Countersigned*

**NEW DELHI**  
The

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