CHAPTER II

2 Performance reviews relating to Government companies

WEST BENGAL HOUSING INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED

2.1 DEVELOPMENT OF RAJARHAT NEW TOWN PROJECT

Highlights

Even after eight years' of existence, West Bengal Housing Infrastructure Development Corporation Limited (Company) had yet to acquire and develop 3,075 hectares of land in three phases due to non-preparation of detailed project reports, annual work plans and absence of coordination between land acquisition and development, leading to time and cost overrun of 48 months and Rs 78.76 crore respectively.

(Paragraphs 2.1.2, 2.1.10 & 2.1.13)

The Company had not fixed fair and reasonable market prices for land to be acquired under the Land Acquisition Act, 1894, leading to short payment of Rs 50.34 crore as compensation to land owners and also making excess payment of Rs 67.58 crore to the land owners of three mouzas.

(Paragraph 2.1.14)

Rehabilitation of project oustees was not adequate, as only 17 *per cent* of identified Project Affected Families, whose dwelling units had been acquired, were rehabilitated.

(Paragraph 2.1.15)

The Company had not adopted appropriate rates for different items of work relating to land development through mechanically operated activities, leading to additional expenditure of Rs 57.66 crore. Further, the Company paid/ allowed Rs 40.10 crore to various contractors on account of inadmissible items and doubtful works.

(Paragraphs 2.1.19 to 2.1.22 & 2.1.24 to 2.1.26)

Enhancement of specifications for construction of internal roads as well as items of work not required, without any justification, resulted in incurring of additional expenditure of Rs 12.16 crore on construction of roads.

(Paragraph 2.1.29)

Introduction

Background of Rajarhat New Town Project

2.1.1 With a view to accommodate the population growth in the Kolkata Metropolitan Area (KMA), the State Government conceived development of the New Town Project at Rajarhat (NTP) in the early nineties to provide land for construction of houses for a population of 7.50 lakh from all income groups with emphasis on housing for economically weaker sections and lower income groups as well as developing a new Business Centre. The State Government engaged five[1] agencies to prepare concept plan, master land use plan along with traverse survey report, draft project report, environmental impact assessment and financial viability reports, internal drawings, urban infrastructure schemes and plans *etc*. The work of NTP was to be implemented in four phases[2] *viz.* Action Areas (AA) – I, II, III and IV, covering 5,400 hectares (ha).

2.1.2 The State Government had entrusted (April 1996) the work of land acquisition for NTP to the West Bengal Housing Board. Subsequently, West Bengal Housing Infrastructure Development Corporation Limited (Company) was incorporated (April 1999), as a wholly owned Government company, for the purpose of developing NTP. Till March 2007, 2,806.04 ha of land under AA - I, II, III & IV has been acquired. The Company took up the development of 1,554.51 ha of land, of which only 55 *per cent* (849.93 ha) had been completed in AA – I, II & III during May 2003 to October 2006. The Company handed over 175.04 ha of developed land to individuals, co-operatives, housing and other companies during January 2002 to March 2007 for housing, educational institutions, commercial and industrial purposes.

2.1.3 The management of the Company is vested in a Board of Directors (BoD) with the Minister-in-charge of the Housing department as part time Chairman and seven other Directors. The Managing Director (MD) is the Chief Executive, who is assisted by the Director General (Engineering), the Director General (Quality Control & Engineering), the Executive Director (Finance), the Secretary, the Financial Advisor and the General Manager (Administration) for day-to-day work. Development activities are looked after by three Executive Directors (Engineering), four General Managers (Engineering), four Executive Engineers and one Superintending Engineer of

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[1] Kolkata Metropolitan Development Authority; Indian Institute of Technology – Kharagpur; Department of Housing, Government of West Bengal; West Bengal Housing Board; and Development Consultants Limited

[2] For AA-I by 2003-04, AA-II by 2006-07 and no time frame for AA-III & IV

Public Health Engineering Department and three Executive Engineers and one Superintending Engineer on deputation from the Housing Directorate, Government of West Bengal. The Assistant General Manager (Administration) oversees the land acquisition activity, undertaken by the Land Acquisition Collectors, North & South 24 – Parganas (LAC). In addition to the MD, the part-time Chairman is assisted by five Advisors, one Consultant and an Officer on Special duty.

Scope of Audit

2.1.4 The present performance review, conducted during August 2006 to April 2007, covers the performance of the Company regarding acquisition and development of land and creation of urban infrastructure facilities in NTP, since inception (April 1999) to March 2007. The audit findings were arrived at after test check[3] of the records of the Company[4], Land & Land Reforms Department[5], Public Health Engineering Department[6], Housing Directorate[7] and Directorate[8] of Registration & Stamp Revenue relating to land acquisition, compensation payments, land and infrastructure development. The sample selected in audit was based on area of land acquired, number of contracts executed and expenditure incurred towards land and infrastructure development.

Audit Objectives

2.1.5 The performance review was undertaken with a view to ascertain whether :

- effective and efficient strategic long-term and short-term plans for completion of the Project under different phases were devised and implemented;
- work plans for land development, construction and infrastructure works were developed in accordance with the strategic plans and implemented;
- the Company had fixed targets and actual achievements were consistent with the targets;
- the process of acquisition of land was completed in time after assessing the suitability of land, adequate compensation paid and an effective rehabilitation package for land oustees chalked out and implemented;

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[3] Land acquisition - 1342.39 ha (48 *per cent*), acquisition award paid in six out of 21 mouzas - Rs 260.46 crore (52 *per cent*), 39 development contracts (87 *per cent*) valuing Rs 288.48 crore (96 *per cent*) out of 45 contracts valuing Rs 299.67 crore
[4] At Head Office, Executive Directors' (Engineering) offices at site
[5] Office of Land Acquisition Collector (North 24- Parganas) at Saltlake for NTP
[6] Office of Superintending Engineer, New Town Water Supply Circle
[7] Office of Superintending Engineer, New Town Construction Circle
[8] Land Registry offices at Barasat and Saltlake

- an effective contract management system and quality assurance was devised and followed;
- systems and procedures were followed to assess comparability and reasonableness of the estimated and actual cost of the works executed;
- procedures for preparing feasible development/ construction / infrastructure packages along with estimates, selection of contractors as well as management of contracts were drawn and followed;
- a well co-ordinated monitoring mechanism for on-going works was devised, made operational and working satisfactorily; and
- the internal control mechanism was in place and operative.

Audit Criteria

2.1.6 The performance of the Company with regard to the development of NTP was assessed against -

- objectives of development of NTP;
- Government policies, guidelines and statutory requirements;
- strategic plans and project reports;
- estimates, schedules of rates, tender documents, contracts, etc.;
- technical specifications prescribed by the Ministry of Surface Transport (MOST) / Ministry of Road Transport & Highways (MORTH) in the Standard Data Book for Analysis of Rates, Recommendations for Road Construction in waterlogged areas (IRC: 34-1970), Guidelines for Design of Flexible Pavements (IRC:37-2001), Recommended Practice for the Construction of Earth Embankments for Road Works (IRC:36-1970) and Specifications for Road and Bridge Works of the Indian Roads Congress;
- detailed contour survey maps of NTP prepared by Public Works Department (Roads);
- agenda and Minutes of the BoD; and
- Land Acquisition Act 1894 as well as National Policy On Resettlement and Rehabilitation for Project Affected Families-2003.

Audit Methodology

2.1.7 Audit adopted a mix of the following methodologies for achieving the audit objectives keeping in view the audit criteria :-

- examination of project reports and their implementation;

- analysis of data relating to land acquisition, registration and land acquisition cases;
- scrutiny of Agenda and minutes of the BoD's meetings;
- study of land development and project execution files;
- scrutiny of records and Management's decisions relating to award of contracts;
- study of contractors' Running Account Bills/ Final Bills against development works and related correspondence; and
- issue of audit enquiries and interaction with the Management.

Audit findings

2.1.8 The audit findings were reported (July 2007) to the Government/ Management and discussed at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE) held on 29 August 2007. In the meeting, the Government/ Management was represented by the Joint Secretary, Department of Housing, Government of West Bengal and Director General (Engineering) of the Company. The review was finalised after considering the views of the Government/ Management.

The audit findings are discussed in succeeding paragraphs**.** A glossary of technical terms is appended at **Annexure-10** for reference.

Project planning

The Company did not prepare Outline and Detail Development Plans for NTP as required.

2.1.9 The State Government notified[9] (August/ September 1999) the Company as the development authority for NTP. The Company was to prepare and submit to the State Government an 'Outline Development Plan' and a 'Detailed Development Plan' of the area within two to three years of notification. **However, even after a lapse of seven years (March 2007), the Company had not submitted the plans. At the ARCPSE meeting, the Company stated (August 2007) that it was not aware of the requirement.**

2.1.10 In the absence of a plan the Company had neither assessed the demand, demand profile and demand sector for prioritisation nor did it draw any comprehensive strategic plan for NTP. It prepared (May 1999) a Project Report for acquisition and development of 3,075 ha of land for different purposes[10] at an estimated cost of Rs 2,000 crore without any plan for funding the same. Although the work was projected to be taken up in three phases[11] (Action Areas – I, II &III), no time schedule or milestone for completion of

[9] Under Sections 9, 11, 31& 32 of The West Bengal Town and Country (Planning and Development) Act, 1979
[10] Residential (50.5 *per cent*), industries (6.5 *per cent*), New Business District (4.6 *per cent*), roads (9.7 *per cent*), open space & water bodies etc. (28.7 *per cent*)
[11] Action Area – I (660 ha), Action Area – II (1,050 ha) & Action Area – III (1,365 ha)

each phase was fixed. Thereafter, the Company prepared (November 1999) a detailed project report (DPR) for the first phase i.e. Action Area-I (AA-I) at an estimated cost of Rs 431.37 crore for development of 640 ha of land, in four parts (IA, IB, IC & ID), by 2003-04. The land acquisition and land filling works were scheduled to be completed by 2003. Subsequently, the Company extended (2004-05) the NTP to 5,400 ha with a fourth phase (Action Area – IV) of 2,325 ha.

Planning for NTP lacked focus and direction resulting in cost escalation and tardy implementation of the project.

The Company had not, however, prepared DPRs for AA – II, III & IV. Instead, the Company undertook (August 2003) a financial viability study for developing 1,050 ha of land only in AA-II at an estimated cost of Rs 1,119.31 crore with scheduled completion by 2006-07. This study was not even placed before the BoD for approval. Thus, planning for implementation of NTP lacked focus and direction besides time schedule for completion.

2.1.11 Land development works in AA – I remained incomplete[12] till March 2003 since progress of land filling works was very slow. Consequently, the project cost was revised[13] thrice due to increase in cost and finally fixed at Rs 706 crore (an increase of 64 *per cent* over the original estimate). Similarly, progress of development in AA-II was also tardy. This lead to upward revision (March 2006) of the aggregate project cost for AA – I, II and III from Rs 2,000 crore to Rs 3,028.27 crore (51 *per cent* increase over original estimate). In August 2007, the BoD revised the project cost for all phases of NTP to Rs 6,201.41 crore, to be completed by September 2015.

The tardy implementation, as analysed in audit, was attributable to delays in acquisition of land and in taking up of development works as well as slow progress of works by the contractors as discussed in succeeding paragraphs.

Funding pattern

Declining trend of fund utilisation hampered the progress of the project.

2.1.12 During 2002-07, the Company received share capital of Rupees two crore from the State Government and loans of Rs 322.39 crore from banks and financial institutions. In the same period, it also collected Rs 1,545.31 crore as application/ allotment money from applicants for allotment of land and against sales of land and dwelling units. Of the aggregate available funds of Rs 1,933.01 crore including opening balance of Rs 63.31 crore, the Company utilised Rs 803.35 crore on the project, repaid principal of Rs 329.14 crore and balance of Rs 800.52 crore remained unutilised as on 31 March 2007.

Details of annual funds available and utilised during 2002-07 are given at **Annexure – 11**. It is seen from the Annexure -11 that the percentage of utilisation reduced consistently from 87 to 12 *per cent* from 2003-04 to 2006-07 with unutilised funds rising from Rs 22.40 crore to Rs 800.52 crore. The amount was invested in term deposits and earned interest income of Rs 59.78 crore. Despite availability of funds, during 2004-07, the Company

[12] While 42 *per cent* of land development work had been awarded, no contract had been completed

[13] February 2000, October 2001 & December 2003

expended only 29 to 64 *per cent* of the budgeted expenditure indicating the tardy progress of works as discussed in the succeeding paragraphs.

Implementation of NTP

Land acquisition

Only 52 *per cent* of projected land was acquired. Delay in acquisition of land led to extra cost of Rs 78.76 crore.

2.1.13 Against projected acquisition of 5,400 ha of land by 2006-2007, the Company acquired (November 1996 - March 2007) 2,806.04 ha (52 *per cent*), including direct purchase of 101.24 ha, at a total cost of Rs 499.67 crore. The balance 2,593.96 ha of land was yet to be acquired (March 2007). The delay in acquisition was attributable to absence of scheduling of land acquisition for each phase in tandem with developmental activities, to hand over the plots to the allottees from January 2001 onwards, etc. This led to time and cost overrun of 48 months and Rs 78.76 crore respectively, as detailed below -

- Neither the State Government nor the Company had drawn up annual plans specifying physical targets for land acquisition. Instead, it prepared annual financial budgets indicating the estimated expenditure for land acquisition. Thus, land acquisition was undertaken in an *adhoc* manner.

- Against 865 drawings to be prepared for the original area of 3,075 ha, the Company had prepared 410 drawings within the target date of March 2001 and balance 455 during 2002-05. Consequently, against the requirement of 5,400 ha, the Company sent land acquisition proposals to LAC for acquiring only 3,105 ha of land (58 *per cent*) up to March 2007. This led to delays by the Company in submission of land acquisition proposals to LAC.

- Land acquisition (640 ha) for AA - I was to be completed by March 2000. The Company acquired only 537.71 ha (81 *per cent*) as per schedule and the balance 102.29 ha was acquired between April 2000 and March 2006. This had delayed land and infrastructure development by 13 to 65 months.

- The Land Purchase Committee[14] decided (May 1999) not to purchase land directly from the land owners in the *mouzas*[15] where land acquisition by LAC was in progress. But, the Company purchased (2003-2006) 14.19 ha in Pathraghata *mouza* for which acquisition proposal had already been submitted (2001-02) by the Company to LAC. As the direct purchases were made at rates higher than those prevailing, these led to escalation of acquisition awards by Rs 40.35 crore as discussed in Paragraph 2.1.14 below. Moreover, the Company had to incur avoidable expenditure of Rs 18.01 lakh towards land registration cost on these direct purchases which could have been avoided had the acquisition been done through LAC.

[14] Constituted by the Housing department in November 1995
[15] Smallest revenue assessment area

- In AA – II, the viability study envisaged (August 2003) taking up the entire development of 1,050 ha in April 2002 for completion by March 2007. Although the Company had already acquired 532.34 ha (51 *per cent*) by March 2002, it took three years to acquire the balance 517.66 ha by March 2005. As a result, development activities on 517.66 ha were deferred by 10 to 34 months.

- The Company had completed (January 2007) the plotting of land (1,116.04 ha) against all acquisition proposals in AA – III, even though 18.95 ha of land was yet (March 2007) to be acquired or was under legal disputes. The Company allotted (December 2005 to October 2006) the entire land through lottery, including those not under its possession.

At the ARCPSE meeting, the Management stated (August 2007) that it was not aware of the increase in NTP area from 3,075 to 5,400 ha. They further added that the annual targets for land acquisition could be arrived at from the budgets. The reply shows the lack of co-ordination within the Company since the Directors' Report for 2004-05 had specifically referred to the increase in the area under NTP. The reply regarding targets is also not tenable as financial targets cannot substitute the physical targets.

Fixation of awards towards land acquisition

2.1.14 In order to arrive at a fair and reasonable market rate for land acquisition under the laws, rules and regulations for land acquisition[16], LAC was to prepare an exhaustive rate report with reference to the sale records at Registration Directorate/ concerned Sub Registrar's office, settlement records, physical inspection, local enquiry and on the basis of average price for genuine sales of similar land in the same or adjoining localities. According to Land Acquisition Act, 1894, if sales for a particular date *i.e.* period of land acquisition, were not available, then current market rate was to be determined from the available sales figures of earlier periods with a suitable premium. The premium up to five *per cent per annum* was admissible without the approval of the State Government.

In deviation of legal provisions, the Company deprived land owners of getting Rs 50.34 crore while in other instances it overpaid Rs 67.58 crore to the land owners.

In view of the commencement of land acquisition process, the State Government restricted[17] (December 1996), with immediate effect, the sale of land in all 21 *mouzas* under NTP except with the prior approval of the State Government. Most of the land acquired for NTP was in small plots of less than 10 decimals with few large contiguous plots of land. To obviate the possibility of speculative appreciation in the market value of land in subsequent years, the available sales figures for 1995 should have been considered as base data for calculation of market rate with annual premium of five *per cent* for 1996 and thereafter. But, the LAC fixed awards for 708.65 ha below the rates prevailing for the year of acquisition, thereby

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[16] Land Acquisition Act 1894 and Land Acquisition Manual 1991 read with guidelines of Land & Land Reforms department
[17] Under Registration (West Bengal Amendment) Act, 1981

depriving the land owners of Rs 50.34 crore, while awards were inflated for 712.94 ha leading to excess payment of Rs 67.58 crore as discussed hereafter -

- While determining the market price of 635.13 ha of land in four[18] mouzas, the LAC, at the instance of the Company and the Department, fixed the rates at two to 41 *per cent* below the prevailing market rates worked out on the prevailing rates of 1995. Consequently, 26,565 land owners were deprived of Rs 33.45 crore from 1998 to 2002, calculated at 1995 price loaded with five *per cent* premium *per annum*. Incidentally, the Company/ WBHB had also directly purchased (1996 - 1999) 42.88 ha of land at Ghuni and Thakdari *mouzas* for Rs 4.02 crore. Had this land been purchased at the prices calculated above, it would have worked out to Rs 6.04 crore.

- At Gopalpur *mouza*, the LAC acquired 73.52 ha of land at the rate of Rs 16.72 to Rs 50.29 lakh per hectare after depreciating[19] the rates as per sale records of 1996. The LAC ignored the current market value of Rs 25.54 to Rs 76.62 lakh per hectare determined on the sale rates for 1995. Consequently, 3,012 land owners were deprived of Rs 16.89 crore.

Being aggrieved with the inadequate fixation of rates, 17,428 land owners, representing 18 *per cent* of total land owners, filed reference petitions with LAC, of which 10,042 cases were yet to be scrutinised (September 2007). The outcome of 1,765 cases sent to the Land Acquisition Judge for redressal from time to time was awaited (September 2007), while the latest position of the remaining petitions was not on record.

- In three[20] *mouzas*, 712.94 ha of land were acquired through LAC during 1999 to 2006, at rates higher than prevailing rates by three to 174 *per cent*. As a result, the Company suffered loss of Rs 67.58 crore.

The Management stated (August 2007) that the District Magistrate/ Land Acquisition Collector is the sole authority for fixing the rates for land acquisition. The reply is not tenable since the Company/ Housing Directorate had also insisted that in most of the cases acquisition was to be made at rates fixed by them and thereby rates were fixed arbitrarily bypassing the provisions of LA Act.

Thus fixation of awards for 708.65 ha of land below the prevailing rates in deviation of legal provisions resulted in depriving the land owners of getting additional award of Rs 50.34 crore while in some other cases awards for 712.94 ha were inflated leading to excess payment of Rs 67.58 crore to the land owners.

[18] Ghuni, Thakdari, Raigachi and Recjoani
[19] By $33^1/_3$ *per cent*
[20] Chakpachuria, Pathraghata and Recjoani

Rehabilitation and Resettlement programme

2.1.15 In 24 *Mouzas*, 97,140[21] land owners had handed over possession of their land to the Company till February 2007 against award of Rs 487.22 crore. In terms of the National Policy[22], the Company was required to conduct surveys to identify the persons and families to be rehabilitated, draw up schemes for resettlement as well as to impart training to those persons for self employment. The policy also required the State Government to notify an Administrator for Resettlement & Rehabilitation. Moreover, Project Affected Families (PAFs) whose dwellings had been acquired were to be allotted, 75 square metres land free of cost, and those under BPL category would get further one-time assistance of Rs 25,000 for house construction. In addition, PAFs whose land was either partly or wholly acquired were also entitled to compensation of Rs 30,725 or Rs 46,088 respectively towards loss of livelihood.

Contrary to the policy, the State Government constituted (December 1999) a Committee to determine the modalities for resettlement and rehabilitation of owners whose dwelling units had been acquired for NTP. The Committee had recommended (February 2000) for providing dwelling units (including one *cottah*[23] land) at a reduced price of Rs 1.20 lakh per dwelling unit to every land owner and impart useful technical training to them for the next two to three decades to ensure gainful employment.

Only 17 *per cent* of the identified PAFs were brought under rehabilitation and resettlement packages.

Till March 2007, the Company identified only 555 owners out of which 56 families were offered dwelling units and 40 families were offered 1.25 *cottah* land each at the rate of Rs 15,000 per cottah. The Company had incurred an expenditure of Rs 1.62 crore till March 2006 towards rehabilitation cost comprising the cost of construction of roads, drains, electrical installations *etc*.

It also trained 2,691 individuals in 45 trades by incurring an expenditure of Rs 50.63 lakh and formed 47 cooperative societies and 56[24] Self Help Groups (SHGs) with 3,073 land owners to generate self-employment. These cooperative societies and SHGs procured jobs worth Rs 14.80 crore and Rs 41.58 lakh respectively so far (June 2007).

Further, during March 2004 to April 2007, the Company also resettled 567 landless squatter families from the banks of the Bagjola Canal, at an expenditure of Rs 65.58 lakh in Jatragachi and Reckjoani *mouzas* with 55.74 square metres of land per family for setting up their dwelling units and other basic civic amenities like drain, toilets and drinking water etc. Further, the Company had reserved five *per cent* of plots/ flats in NTP for those land owners within the project area, whose land had been acquired.

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[21] 1,207 Land Acquisition cases
[22] National Policy on Resettlement and Rehabilitation for Project Affected Families – 2003 notified on 17 February 2004, applicable for projects where more than 500 families were displaced
[23] One cottah at NTP is equal to 66.91 square metres
[24] 45 consisting of women only & 11 consisting of men only

While accepting the audit observations, the Management stated (August/ September 2007) that the PAFs were rehabilitated before displacement. Further, the requirements of the National Policy would be complied with if the State Government issued instructions in this regard. Moreover, according to the Management, 'a good percentage of the land owners are outsiders' and 'a certain percentage of families are much above the poverty line'. The fact, however, remains that even after a lapse of eight years (March 2007), the Company had failed to identify the erstwhile land owners in NTP and to extend financial assistance to PAFs in terms of National Policy.

Thus, even after a lapse of eight years, the Company had rehabilitated only 17 *per cent* of identified PAFs with dwelling units and failed to identify the remaining erstwhile land owners in NTP and extend financial assistance to them as per National Policy.

Land Development

2.1.16 The Company after taking possession of the acquired land was required to prepare layout plans; undertake earth filling and compaction; construct major arterial roads, sub-arterial roads, collector roads[♣] and local roads; drainage and sewerage systems; electric supply and telecommunication systems; as well as public utilities like schools, colleges and parks.

Land development was slow due to failure to avail working seasons, synchronise the pre-tender activities and prioritise development works.

2.1.17 The work of development could not be undertaken during five months of the rainy season from June to October, as work is to be done in open field which are subjected to vagaries of nature. The Company, however, did not plan and co-ordinate the development activities so as to ensure timely completion. The Company had, also not prepared work plans to synchronise pre-tender activities and prioritise development works.

The following table indicates the cumulative position of land acquisition, development works taken up and completed in AA-I to III upto 31 March 2007.

Land in hectares

Up to the year	Land acquired	Land taken up for develop-ment	No. of contracts awarded	Value of contracts awarded (Rs in crore)	Percentage of land taken up for develop-ment to land acquired	Land fully deve-loped	No. of contracts completed	Percent-age of land developed to land acquired
2001-02	1,202.13	662.44	12	161.00	55	Nil	Nil	Nil
2002-03	1,620.08	686.46	16	166.94	42	Nil	Nil	Nil
2003-04	1,799.67	841.04	25	194.97	47	214.97	3	12
2004-05	2,119.34	1,237.60	35	251.75	58	415.76	13	20
2005-06	2,531.84	1,554.51	45	298.61	61	799.91	20	32
2006-07	2,806.04	1,554.51	45	298.61	55	849.93	21	30

[♣]Intermediary roads which connect the traffic from local roads to the sub-arterial roads.

In this connection, the following points were noticed :-

Unrealistic estimates and deficiencies in contract management led to time overrun of 10 to 65 months and cost overrun of Rs 78.98 crore.

2.1.18 Out of 2,806.04 ha of land acquired (April 1999 to March 2007), 45 contracts (value : Rs 298.61 crore) for development of 1,554.51 ha (55 *per cent*) land were awarded to 14 contractors upto January 2007. Against the acquired area of 2806.04 ha, only 849.93 ha (30 *per cent*) had been developed as on 31 March 2007. This was due to delays in awarding contracts, unrealistic estimates, selection of non-qualified contractors and failure to arrange adequate earth required for land filling activities. Delays resulted in time over run of 10 to 65 months and cost escalation of Rs 78.98 crore as discussed hereafter -

- As per rules[25], tenders should be valid for 90 days from their opening, implying that contracts must be finalised within that time. The Company had, however, awarded 19 contracts after delays of one month to 24 months beyond 90 days, due to indecisiveness in finalisation of methodology of work and lack of proper estimates.

- Due to delays in tender finalisation, the Company awarded 35 out of 45 contracts for land development between mid-December to mid-March. Hence, the contractors' working season was curtailed by two to six months due to rainy season.

- In AA - II & III, the Company awarded (February 2002–March 2005) eight contracts to develop 100 ha and 352 ha respectively before establishing title to land as a result completion of work delayed by 14 months. According to the Management (August 2007), land could not be made available to the contractors due to site problems and failure to acquire the land.

- The Company had not prepared cost estimates for land development based on pre-level measurement, detailed drawings/ designs/ specifications as per MOST/ MORTH schedule of rates. Consequently, in 19 contracts (Rs 136.38 crore) awarded (March 2000 –December 2004) and completed (June 2003 – October 2006), the quantities and value of work done were three to 60 *per cent* below the estimated quantity. The volume of land filling works executed was below estimates by 8.34 lakh Cum of earth entailing a lower cost of Rs 20.18 crore (15 *per cent*), indicating that the estimates were not realistic.

- Initially, the Company had not empanelled contractors for land development including infrastructure facilities based on their credibility and financial strength. Instead, it engaged (November 1999/ March 2000) two[26] contractors through negotiations to develop 200 ha and awarded (March/ June 2001) further 122.24 ha of land on the same terms and conditions.

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[25] No. CE/ Con/524 dated 26 November 1971 (PWD)
[26] IRCON, A Central PSU and Mackintosh Burn Limited

- On the basis of applications invited (March 2000/ September 2001) for prequalification of eligible[27] contractors, the Company empanelled (October 2001) eight contractors. But, the orders were placed (December 2001/ February 2002) only for three works of Rs 36.94 crore on two[28] empanelled contractors for development of 194.23 ha of land.

- The Company reduced (September 2002) the average value of 29 contracts to Rs 4.99 crore by relaxing the eligibility criteria and awarded (December 2001 – December 2005) these contracts to seven[29] contractors, who were not empanelled, to speed up the project execution. Thus, it permitted less resourceful contractors to participate in development works by relaxing the eligibility criteria. Despite this, there were delays of 10 to 28 months against 13 completed contracts and 10 to 34 months against 16 ongoing contracts. Thus, relaxation of the eligibility criteria and reducing the value of contracts had not speeded up the progress of implementation.

- Against estimated requirement of earth of 3.97 crore Cum for land filling in AA – I, II and III; the Company prepared (April 2003) a project report identifying availability[30] of only 1.38 crore Cum from *bheries* (fish farms) in East Calcutta Wetlands[31] (ECW). The shortage of earth for land filling led to delays in land development and the Company asked (2001-02) the contractors to make their own arrangements for procurement of earth. Consequently, only 1.58 crore Cum of earth filling was completed including 34.99 lakh Cum of earth sourced from within the NTP area. This indicated lack of planning before executing land filling works.

The Management attributed (August 2007) the delays to land disputes, obstruction by local people, intermittent rainfall, bad condition of haul routes, non-availability of earth, court cases etc.

Thus due to delays in awarding of contracts, unrealistic estimates, selection of non-qualified contractors and failure to arrange adequate earth required for land filling resulted in time overrun of 10 to 65 months with cost escalation of Rs 78.98 crore.

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[27] Contractors with experience of having executed a similar project of, at least, Rs 30 crore and having requisite plant & machinery for handling 20 lakh Cum of earth

[28] Bridge & Roof Company (India) Limited – Rs 23.44 crore (2) & Tantia Construction Company Limited (a consortium) – Rs 13.50 crore (1)

[29] Brahmaputra Consortium Limited - seven contracts for Rs 38.67 crore; Abhoy Charan Bakshi - five contracts for Rs 22.65 crore; Devi Enterprise Limited - four contracts for Rs 15.13 crore; Dhansar Engineering Company Private Limited - three contracts for Rs 13.59 crore; Tribeni Construction Private Limited - a contract for Rs 4.13 crore; Mackintosh Burn Limited – six contracts for Rs 30.40 crore; Hindusthan Steelworks Construction Limited – three contracts for Rs 20.13 crore

[30] Based on availability of 5700 Cum earth per hectare from 24 *bheries* with an area of 1,908 ha

[31] A 12,500 ha sewage- fed fisheries adjoining NTP to the south

Incorrect fixation of rates

Incorrect analysis of rates for different items of the work led to additional expenditure of Rs 51.89 crore.

2.1.19 As the Company undertook land development through mechanical means, the appropriate schedule of rates was to be based on MOST/ MORTH specifications[32]. While placing (2000-05) 24 contracts for development of 692.17 ha in AA – I & II at a cost of Rs 142.57 crore, the Company, however, failed to analyse the rates for items like stripping of top soil and its disposal, earth work in excavation, carriage and compaction thereof etc. all mechanically operated activities. Instead, it either adopted the rate of Public Works (Roads) Schedule of Rates or lowest tendered rates for excavation and compaction of 96.82 lakh Cum earth. Further, on execution of land development over 1,036.93 ha in AA-I, II & III, the Company fixed (2000-07) the rates for carriage of 94.93 lakh Cum earth beyond initial 1 km without considering the appropriate rates as per MOST/ MORTH's specification. Incorrect analysis of rates for different items of work resulted in additional expenditure of Rs 51.89 crore (**Annexure - 12**) towards excavation/ compaction (Rs 46.34 crore) and carriage (Rs 5.55 crore) of earth.

Inflation of rates led to additional expenditure of Rs 5.77 crore.

2.1.20 Although the BoD expressed (December 2001) concern over the reliability of estimates prepared when bids received were lower by 47 and 22 *per cent*, no remedial action was taken by the Company to prepare realistic bids to ensure economy of expenditure. Only in 2004-06, the Company prepared estimates for development of 647 ha of land as per MOST/ MORTH specifications. Even then, the Company had inflated the rates by considering higher consumption rates of high speed diesel for equipment[33], allowing contractors' inadmissible element of profit[34] on the usage rates for machinery as well as inadmissible percentage of site overhead[35] and reducing the standard output to be obtained from Excavator CK-90[36]. This led to additional expenditure of Rs 5.77 crore (**Annexure - 12**) for earth work of 41.46 lakh Cum on 14 contracts in AA-III valuing Rs 93.24 crore.

The Management stated (August 2007) that after this had been pointed by Audit, the basis of arriving at rates had been changed to MOST/ MORTH specifications. The reply is not tenable since even after changing the basis, the Company issued 13 contracts at higher rates.

Excess payment towards transportation of earth resulting in loss

Defective contractual clause for carriage of earth resulted in avoidable expenditure and loss of Rs 2.30 crore.

2.1.21 The Standard Data Book[37] for Analysis of Rates, 1994 as circulated by MORTH provided that the rate for excavation of earth include carriage of materials up to one kilometre. Besides, to ensure equitable payment, for lead of carriage beyond one kilometre, the distance should be rounded off to the nearest higher whole kilometres for 500 metres or more, while distances less

[32] Public Works (Roads) National Highways Schedule of Rates
[33] For Tipper truck – 8.33 instead of 6.1 litres per hour; Dozer D-50 – 20 instead of 18 litres per hour
[34] At 10 *per cent* even though the usage rates were inclusive of contractors' profit
[35] Although the Company had borne overhead expenses like security, water charges, electricity, site accommodation *etc.*
[36] 300 Cum instead of 360 Cum
[37] Chapter -3, Item i (d) – prepared by MORTH

than 500 meters are to be ignored. The Company's agreements with contractors did not, however, have any clause specifying the above mode of reckoning the lead for payment. Instead, the agreements provided for payment of carriage in slabs, with even fractional distances below 500 meters being rounded off to the nearest higher whole kilometers.

After being pointed in November 2001, the Company after a lapse of four years, incorporated (December 2005) this requirement in the agreements. Meanwhile, in 10 contracts for earth filling (November 1999 to June 2006), lead below half a kilometer had not been ignored on carriage of 44.30 lakh Cum earth from borrow areas to the filling areas for 64 leads. As a result, the Company incurred avoidable excess expenditure and loss of Rs 2.30 crore.

The Management stated (August 2007) that following the audit observations, it adhered to the requirements of the specifications. It was, however, noticed that even after being pointed out in audit, the Company had deviated from the specifications in respect of 13 contracts entered (including seven contracts scrutinised in audit) during November 2001 to December 2005.

Additional expenditure due to defective agreement and delays thereof

2.1.22 With a view to undertake land development work on 150 ha, the Company awarded (November 1999) work for earth filling and construction of roads to Water Bound Macadam level at a cost of Rs 28.65 crore to IRCON[38] at negotiated rates, without call of tenders for completion by October 2000. The cost of the work was enhanced (February 2001) to Rs 45.72 crore due to increase in the scope of work (60 *per cent*).

Land development includes excavation of earth from the borrow area, its transportation to the filling area and subsequent compaction *in situ*. The Company, instead of specifying a consolidated rate for the work based on compacted volume of earth measured with respect to pre-level and post levels of filling area as per the Specifications for Roads & Bridge Works[39], 1995, provided three separate rates for excavation, earth filling and its compaction and carriage beyond a kilometer.

Inclusion of separate rates for items of land development works instead of a consolidated rate led to extra expenditure of Rs 7.33 crore.

Accordingly, it allowed IRCON to bill for **(a)** excavation and carriage thereof on the excavated quantity of earth measured at the borrow areas, and **(b)** for compaction of the same earth on the volume measured in the filling area. Till the IRCON's tenth running bill (October 2001), the Company admitted and paid Rs 33.96 crore. Subsequently, due to wide difference between the volume of earth excavated and the volume of land filling *i.e.* compaction, it restricted (May 2001) all payments to the volume of compaction. Consequently, IRCON stopped (April 2002) the work and the Company executed the incomplete work of Rs 14.67 crore through other contractors. Although the Company released (March 2006) the entire billed value of Rs 38 crore for 147 ha till the twelth running bill, IRCON went (July 2006) for

[38] Indian Railway PSU
[39] Section 114.1

arbitration. Further developments were awaited (September 2007). Despite giving most favoured status to IRCON in award of work without call of tender, IRCON did not complete the work and the balance work was got done at an additional expenditure of Rs 7.33[40] crore.

The Management stated (August 2007) that as IRCON had accepted that the earth volume in excavation would be the same as filling quantity, the need for a specific clause in the agreement was not envisaged. The fact, however, remains that absence of suitable provision in the agreement in line with the acceptance of rates by IRCON led to undue benefit to the contractors.

Failure to derive benefit from development activities of bheries[41]

2.1.23 To conserve the East Calcutta Wetlands (ECW) by desilting about 3,800 ha of fisheries in ECW, the State Government decided[42] (December 2002) that the Company would excavate and utilise the earth from designated water bodies on recovery from the State Government[43] of actual transportation and associated costs including construction of haul roads. The Company submitted (April 2003) a project report to the State Government estimating availability of 1.09 crore Cum at a cost of Rs 84 crore.

The Company failed to claim reimbursement of Rs 22.69 crore from the State Government.

Till March 2007, the Company had incurred an expenditure of Rs 38.36 crore including Rs 15.67 crore from February 2000 to December 2002. Despite the decision (December 2002) to recover the costs from the State Government, the Company had failed to claim reimbursement of Rs 22.69 crore incurred from January 2003 onwards. At the ARCPSE meeting, the Management stated (August 2007) that the State Government was not inclined to reimburse the expenditure. The fact, however, remains that the Company did not raise the claim for reimbursement.

Moreover, though desilting would increase the production of fish, the Company negotiated only with the State Fisheries Development Corporation Limited for obtaining earth, free of cost. In respect of the other *bheries*, no negotiation was made and it paid Rs 5.71 crore (excluding carrying cost) to 11[44] contractors towards the cost of 1.06 crore Cum of earth procured from them.

Non-reconciliation of earth excavated from borrow areas with filling volume determined from pre- and post levels

2.1.24 The land development contracts specified the *bheries* and borrow areas from where contractors would excavate earth for land filling works, but not specified the volume of earth to be excavated. As a measure of internal check, the Company should have specified the volume of earth to be excavated from each location. Further, the volume of earth actually excavated by the

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[40] Rs 5.11 crore for excess quantity allowed for excavation of 6.38 lakh Cum earth, Rs 1.88 crore for it's carriage and escalation thereon of Rs 0.34 crore
[41] A shallow water body primarily utilised for sewage-fed pisciculture
[42] At a meeting held between Ministers in-charge, Housing and Fisheries departments
[43] Fisheries department
[44] 23 land development works in Action Area – I & II

contractors from each borrow area had not been measured, except in case of IRCON. Moreover, to determine the actual volume of earth filling undertaken in the area under development, the prevailing ground level prior to taking up of earth filling (pre-level) and the final ground level after earth filling, levelling and compaction (post level) should be measured by the Company. The deficiencies found during audit in few such cases are discussed in paragraphs 2.1.25 and 2.1.26.

2.1.25 The Company had identified (April 2003) two Patrabad[45] *bheries* (No. 2 and 3) within ECW as well as incorporated (September 2005) them in the master land use plan of NTP. Based on the environmental clearance (November 1999) for excavation of earth upto a depth of 1.2 metre, the Company estimated (April 2003) that from these two *bheries* (120.68 Ha), 6.88 lakh Cum earth was available.

Lack of control and monitoring over the excavation of earth led to dubious payment of Rs 24.65 crore.

It was noticed that in respect of seven[46] work orders (December 2001) for land filling in AA - ID, the Company paid[47] (December 2001 – December 2004) bills for excavation and compaction of 23.79 lakh Cum of earth from three[48] Patrabad *bheries* (No. 1, 2 & 3), including 7.09 lakh Cum from Patrabad *bheri* No. 1 that was not in existence. Further, the quantities excavated from the two other bheries indicated that they yielded 48 and 267 *per cent* beyond estimated capacity. **The wide gap of 16.91 lakh Cum between the quantity of earth available for excavation and the quantity claimed to have been excavated and billed by the contractors, rendered their claim of Rs 24.65 crore dubious. Yet, the Company paid this amount.**

The Management stated (August 2007) that since the engineering unit was not furnished with a copy of the report indicating the availability of earth from the identified bheries, earth had been excavated to depths of 1.98 to 2.43 metres. The contention is not acceptable as detailed measurement of depths as claimed by the Company was not recorded in the concerned measurement books.

It was also noticed that more than one hectare (sale value : Rs 4.91 crore) of land in AA – IIB was dug up to such depth ostensibly by 'miscreants stealing earth' that filling it up would be uneconomic. Therefore, the Company was compelled (March 2005) to convert the dug out area into a permanent water body which was not saleable, thereby incurring a loss of Rs 4.91 crore. **The earth could not have been excavated from within NTP without the knowledge of the Company's Officials and the possibility that the contractors had excavated this earth for land filling works can not be ruled out. The Company had not lodged a First Information Report with the Police regarding damage to the value of land.**

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[45] The common name of two bheries - No. 2 – 68.63 ha and No. 3 - 52.05 ha

[46] Brahmaputra Consortium Limited (27.94 ha), Abhay Charan Bakshi (40 ha), Hindustan Steel Works Construction Limited (24.88 ha), National Building Construction Corporation Limited (24.88 ha), Goranga Lal Chatterjee (27.97 ha), Tantia Construction Company Limited (50.27 ha), Bridge & Roof Company India Limited (43.96 ha)

[47] At an average rate of Rs 145.78 per Cum - excavation (Rs 80), compaction (Rs 27), cost of earth (Rs 5.50), carriage for four km (Rs 27) and contract value above estimate by 4.5 *per cent* (Rs 6.28)

[48] No.1 – 7.09 lakh Cum (non-existent), No.2 – 5.80 lakh Cum, No.3 – 10.90 lakh Cum

2.1.26 PWD (Roads) had undertaken (1994) a contour survey of NTP which indicated the original levels of land. The Company utilised these contour maps as the base drawings for land development. Only after work orders were placed by the Company on the contractors, the Company's field staff, the Housing Directorate (Survey & Planning wing) and the contractors' representatives jointly undertook the detailed pre and post level measurements. Despite availability of contour maps, the Company had not verified the pre-level measurements recorded subsequently with the levels shown in the contour maps to avoid over payments.

The Company paid Rs 5.82 crore to the contractors for fictitious works.

In AA – I D & II/2, out of land filling works for 158.24 ha awarded to seven private contractors, it was noticed that in 114 ha (72 *per cent*) the average pre-level measurements recorded were lower than the corresponding pre-level measurements shown in the contour survey maps by 18.1 cm to 52.7 cm. But seven contractors, by depressing the pre-level measurement, claimed to have excavated, transported, filled and compacted an additional 4.17 lakh Cum of earth and were paid Rs 5.82 crore. Due to failure of the Company's field staff and the Housing Directorate to check the pre-level measurement, t**he Company made payment of Rs 5.82 crore to seven private contractors towards fictitious works against cost of earth, excavation, carriage and compaction.**

The Management stated (August 2007) that the original contour survey undertaken in 1994-95 was back-dated. Since the NTP area was a low-lying basin, it remained under water for most of the year and consequently, the soil was washed away by rain water and subject to cultivation by farmers as well as extraction of earth by local people, which lead to change in the level. The reply is not tenable as in a low-lying basin, soil levels rise over time due to sedimentation. Moreover, it was noticed that the levels had gone down in the case of these seven private contractors (114 ha), whereas for two PSU contractors (49.76 ha), the levels had risen.

Creation of infrastructure facilities

Construction of roads

Rs 45 lakh were spent in excess of estimates on the construction of roads

2.1.27 The original project report for AA-I, AA-II and AA-III envisaged (May 1999) construction of 221 km of major arterial (11 km), arterial/ sub-arterial (60 km) and collector/ local (150 km) roads at a cost of Rs 250 crore, without any completion schedule. Subsequently, the DPRs (November 1999) provided for the construction of 46.752 km of arterial, sub-arterial, collector and local roads in AA - I by September 2002 at Rs 53.29 crore. The Company, however, awarded (November 2002) 12 contracts for completion of 30.39 km of roads by February 2007 at a cost of Rs 73.62 crore. Till March 2007, 10.55 km of Major Arterial Road (MAR) and 19.63 km of internal roads were constructed at a cost of Rs 73.56 crore leading to additional expenditure of Rs 45 lakh over the proportionate awarded value (Rs 73.11 crore) of the completed 30.18 Km of road. Further against the estimated cost of Rs 53.29 crore for construction of 46.752 Km of roads, the work for construction of 30.39 Km of roads was awarded at Rs 73.62 crore, which indicates that the estimates were not prepared on realistic basis. In addition, there would also be time and cost overrun when the entire work of construction of 46.752 km is completed.

The reasons for shortfall in road construction, as analysed in audit, were adoption of untried new technology, deficiencies in design and execution, undue favour to contractors and non-synchronisation of development works as discussed in Paragraphs 2.1.28 to 2.1.33 below.

Non-synchronisation of road construction with land development resulted in extra expenditure of Rs 4.64 crore.

2.1.28 The Company appointed (April 2002) M. N. Dastur & Co. Private Limited (MNDC) as Engineering Consultant through call of tender at a cost of Rs 1.74 lakh. MNDC was to design and recommend standard pavement thickness for Southern Extension of MAR and all internal roads in AA – I. MNDC submitted its report in June 2002. Subsequently, the Company considered (January – June 2003) a *suo moto* proposal of Panorama Overseas Private Limited (POPL) for utilising Wrap Technology (WRAPTECH) for constructing 50 Km internal roads in AA-I. This technology had neither been previously implemented in India nor approved by IRC/ IIT as well as MNDC. Even then, the Company floated (July 2003)tender and after expiry of more than two years, placed (November 2005) a work order on POPL for construction of 50 Km roads with this technology at a cost of Rs 29.63 crore by November 2006.

During tender negotiations, the Company had rejected the offer of other tenderer, NIICO on the ground of its inexperience on WRAPTECH or any other similar fast track technology, while POPL had to depend on its foreign collaborator, Rah Gostar Naft Co. of Iran for this technology. POPL, however, failed to start the work, due to lack of requisite funds. Ultimately, the Company rescinded (August 2006) the contract. Later, a work order for Rs 37.39 crore was awarded (December 2006) to Dinesh Ch. R. Agrawal Infra Construction (P) Ltd. for construction of 44 km of internal roads with conventional method. The work was in progress (September 2007). Thus, adoption of a technology not approved by IRC/ IIT ultimately delayed the construction of roads by four and a half years, which delayed completion of NTP. In the ARCPSE meeting, the Management stated (August 2007) that it had forfeited POPL's security of Rs 60 lakh.

Further, due to non-synchronisation of road construction with land development activities *viz.* land filling etc. in AA - I, the Company had to re-excavate 5.19 lakh Cum of earth by box cutting up to depth of 1.5 metre to construct roads subsequently as well as to dispose off the excavated earth at adjoining sites at an extra expenditure of Rs 4.64 crore.

Design and construction of internal roads in Action Area IB, IC & ID

2.1.29 According to the Indian Roads Congress (IRC), roads are designed in pavement layers of varying thicknesses and utilising different material based on (a) the characteristics[49] of the sub-grade of soil that provides support to the road from beneath, (b) anticipated traffic density (in million standard axles),

[49] Stability, incompressibility, permanency of strength, minimal changes in volume and stability under adverse ground water and weather conditions, good drainage, ease of compaction

(c) prevailing ground water level, (d) flooding levels, (e) existing local climate and (f) design life. The soil sub-grade being a layer of natural soil has to be prepared to receive the layers of materials paved on it and to disperse the pavement load on to the mass of earth below the sub-grade. Hence, it was imperative to test the subgrade soil for assessing its' load bearing strength and other qualities[50] to adopt appropriate pavement design of requisite strength. The applicable guidelines are given in **Annexure - 13**.

Based on their studies and appropriate guidelines, MNDCL designed (June 2002) the pavement thickness of internal roads for 20 years with California Bearing Ratio[51] (CBR) value of three *per cent* on compacted sub-grade. The Company adopted (August 2002) these specifications for internal roads and in AA - IA and ID, constructed 19.63 km (surface area 1.33 lakh square metre) at a cost of Rs 8.84 crore. During execution, tests showed that MNDC's recommended parameters were attained and no instance of pavement failure had been reported (May 2007) indicating their adequacy.

Change of pavement specifications for road construction without any justification and fixation of higher rates led to cost escalation of Rs 12.16 crore.

Never the less, the Company, without any recorded reason, decided (August 2006) to enhance specifications of pavement thickness and their component layers based on assumed subgrade CBR of six *per cent* without conducting requisite detailed test, in respect of remaining 44 km in AA - IB, IC & ID. This led to enhanced cost of road construction by Rs 10.08 crore due to usage of additional quantities as well as higher quality of materials.

Moreover, the Company, without the approval of the MNDCL, fixed higher rates for different items of works for these roads by including items of works not required under the prevailing conditions leading to additional expenditure of Rs 2.08 crore.

The Management stated (August 2007) that the soil characteristics of the sub-grade in AA-IB, IC and ID was different from those of AA-IA. The reply is an afterthought since MNDC's report was prepared after an exhaustive study of the soil conditions at 18 locations including 12 in AA-IB, IC and ID as per requirements of IRC and Bureau of Indian Standards, at a cost of Rs 1.75 lakh and the Company had originally approved (August 2002) the same pavement specifications. But, the single page CBR test report on which the higher specifications were proposed by the Company, were from only seven locations in AA-IB, IC and ID. This CBR test report obtained (August 2006) at a cost of Rs 3,500 did not comply with the standards. Moreover, the roads constructed as per MNDC's specifications were behaving satisfactorily, even after movement of heavy vehicles.

Had the Company not deviated from the specifications as recommended by MNDC for construction of these internal roads and fixed the rates with reference to items actually required, the additional expenditure of Rs 12.16 crore could have been avoided.

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[50] Nature, grain size and its distribution, density, cohesive strength, liquid limit, plastic limit, moisture content – dry density relationship using light compaction and its behavior at different moisture content *etc.*

[51] The most preferred international penetration test to indicate the load bearing capacity of soil

Failure to economise construction cost

2.1.30 The GOI mandated[52] (September 1999) utilisation of fly ash in the construction of any project including road construction, if fly ash was available within a radius of 100 kms from the site. It has been successfully utilised as an engineering fill in the sub-base in road construction all over India.

CESC Limited has two thermal power stations at Titagarh and Budge Budge producing fly ash and another at Cossipur producing cinder, all within radius of 100 km from the project site. Not only was fly ash available in adequate quantities for road sub-base, but was also cheaper than the sand actually used. But the Company failed to exploit this resource available at only transportation cost thereby incurring additional expenditure of Rs 69.34[53] lakh on use of 0.67 lakh Cum sand instead of fly ash.

The Management stated (August 2007) that fly ash was not available in adequate quantities. The reply is not acceptable since the Management did not make an effort to ascertain the availability of fly ash from the two thermal power stations in the area.

Undue favour to private party

2.1.31 The Company had undertaken (November 1999) land development on 150 ha through IRCON without call of tender. Subsequently, it awarded (May 2000) with the approval of BoD land development work of 50 ha to Mackintosh Burn Limited (MBL- not a Government company), through negotiations without call of tender, for completion by November 2000 at a cost of Rs 11.96 crore. The terms and conditions were meant to be similar to the contract with IRCON. MBL took up (February 2001) the work and completed (June 2006).

It was noticed that there were deviations in the terms and conditions between IRCON and MBL leading to undue favour to MBL to the extent of Rs 1.36 crore as detailed below :-

Sl. No.	Item	Provision in IRCON's agreement	Provision in MBL's agreement	Impact
A	Carriage of earth from borrow pit to filling area for a distance beyond one km	BOQ & rate provided for payment to be made as per PWD (Roads) Schedule of Rates 98-99 item no.11 b, c, d, e, for carriage of materials without any classification of *Kuccha* or *Pukka* Road hauled.	BOQ & schedule of Rates did not provide payment for such item. A clause had been included allowing multiplication of distance hauled on *Kuccha* Road by 1.5 times to calculate the carriage distance.	MBL was paid an additional amount of Rs 60.86 lakh for carriage of earth from borrow area due to additional loading for *kuccha* road.
B	Security deposit & deferred payment	Security deposit of 10 *per cent* and deferred payment 10 *per cent* of the progressive bills were to be	Security deposits were restricted to rupees one lakh only for each work. No provision for deferred	MBL was extended additional advantage of Rs 75.06 lakh being the simple interest at eight

[52] S.O. 763(E) dated 14 September 1999 and 979(E) dated 27 August 2003
[53] Net differential rate between one Cum of compacted fine sand and fly ash –Rs 103.38 for 67,073 Cum fly ash.

Sl. No.	Item	Provision in IRCON's agreement	Provision in MBL's agreement	Impact
		retained and refundable after completion of the work	payment.	per cent *per annum* on the amount released against RA bills

Despite MBL's delay in taking up the work, the Company awarded (June 2001) development of additional 22.24 ha of land with fly ash and earth and construction of internal roads to MBL at a negotiated cost of Rs 6.42 crore. The work was awarded to MBL ostensibly due to its previous satisfactory performance and its competence to complete the work by the end of 2001 by utilising fly ash during the rainy season with its already mobilised resources.

Till January 2002, MBL had filled up only 0.94 lakh Cum of fly ash against requirement of 1.99 lakh Cum on 22.24 ha and built a haul road of three km with fly ash. The Company decided (October 2001) to fill up the balance area with earth instead of fly ash. Ultimately, MBL completed the works between January and June 2006 after delay of more than five years, thereby defeating the objective of quick completion of the work. Thus, Company's decision to award the second land development contract to MBL without tender on the pretext that MBL would work through the rainy season by using fly ash was not justified.

In deviation of the tendering procedure and Government's order, undue benefit of Rs 2.80 crore was extended to a party.

2.1.32 For construction of the ten lane East West Road Corridor (EWRC) from AA - ID to Shikarpur Kulti Canal Road, the Company got an estimate of Rs 40.65 crore prepared (December 2004) by the Housing Directorate. The Company returned (February 2005) the estimate for changing the specification of road pavement. However, without any response from the Housing Directorate, the Company decided (March 2005) to construct a six-lane road before the ensuing monsoon to meet the pressing needs of bulk land buyers. Without inviting tenders, the Company awarded (June 2005) the work to MBL at a negotiated price of Rs 16.60 crore i.e. six *per cent* below revised estimate of Rs 17.66 crore. The road of 6.5 kms was to be ready by May 2005.

It was observed that Madhumita Construction Limited had been executing (December 2004) a similar road work in AA – IIB at 11.19 *per cent* below the estimate. Even then, the work of EWRC was awarded to MBL at six *per cent* below the estimate on the plea that the work would be executed at 'express speed' with strict completion target before monsoon. Thus, award of works to MBL without call of tenders, without ascertaining specifications from PWD (Road and Bridges) and without comparing rates of similar awarded works resulted in incurring of extra expenditure of Rs 92 lakh.

The progress of work was, however, very poor and MBL only completed the first 3.15 km of road up to June 2006 at a cost of Rs 7.26 crore. MBL attributed (November 2006) its' inability to complete construction due to non-receipt of clear site from the Company; change in alignment drawings by the Company; encroachment of site by an allottee; agitation by local people for non-payment of land compensation by the Company; delay in final clearance by ECW authorities (which was cleared only in March 2006); delay in taking the post work level measurements of land filling along the alignment of road etc.

Subsequently, at the request (December 2006) of MBL, the Company again placed (December 2006) order on MBL for constructing the remaining length of 3.06 km by August 2007 at an extra expenditure of Rs 52 lakh[54] **on the ground that MBL was a Government undertaking and capable to 'speed up' the work with existing equipment and establishment already at site.**

The following lacunae were noticed in audit :-

- The Company was aware (December 2004) of the non-acquisition of land for stretch beyond 3 km. before awarding (June 2005) the work. Hence, timely completion of the work was ruled out.

- MBL initially used (December 2005) 37,379 Cum inferior quality of silver sand (cost Rs 1.10 crore) on the plea (May 2005) of non-availability of standard quality of silver sand. But, no deduction had been made thereagainst (September 2007).

- Even though MBL did not intimate the problems in execution, the Company allowed it to continue in a slipshod manner. Although MBL was to complete the work by December 2005, it was belatedly granted extension in December 2006.

- **Further, MBL was never a Government company and its selection on that ground was unjustified.**

While accepting the above facts, the Management stated (August 2007) in ARCPSE meeting that the matter would be taken up with the Government (Finance department) for seeking clarifications.

Thus, the Company extended undue benefit of Rs 2.80 crore to MBL through negotiated deals bypassing the tendering process, violating Government orders and standards of financial propriety.

Unfruitful/ avoidable expenditure on road development and repair

Construction of roads without survey and lack of co-ordination of activities led to extra expenditure of Rs 0.98 crore.

2.1.33 The Company, without undertaking feasibility surveys, had taken up (December 2001/ May 2004) construction of 2.63 km haul roads in the ECW area to facilitate access to the *bheris*. The Company incurred (December 2001 - February 2005) expenditure of Rs 42.87 lakh on construction of two[55] roads (0.76 km, 0.73 km). But the same could not be completed (September 2007) due to presence of large water bodies along their alignment. Thus, the expenditure of Rs 42.87 lakh became unfruitful due to non-completion of work taken-up without proper survey. Fact is that PWD had undertaken a

[54] The current prevailing rates[54] of Rs 9.86 crore less cost of balance works of Rs 9.34 crore

[55] Road of 0.76 Km starting from Nalban exit point to project, executed by Dhansar Enginnering Co. Private Limited – Rs 14.37 lakh; 1.300 km road from Thakdari road junction to Chinta Singh *bheri* of which only 730 m was constructed till April 2003 by New India - Rs 28.50 lakh

contour survey indicating the original levels of land and Company utilised these drawings for land development.

Further, as envisaged in the Project Report, the Company was to lay pipelines for sewerage, drainage and water supply while constructing roads. The Company did not co-ordinate these activities with the concerned authorities and constructed (April 2001 - March 2003) roads in AA – IA. These were damaged subsequently during laying (December 2003 – July 2006) of sewerage, drainage and water supply lines. As a result, the Company incurred (May 2002 to December 2004) avoidable expenditure of Rs 55.50 lakh on repair of these roads.

The Management stated (August 2007) that as per normal practice, road works were taken up after laying sewerage, drainage and water lines. But, the Company had to construct some roads to ensure accessibility of land allotted to big houses failing which they would have claimed interest due to delays. The reply omits to mention the fact that drainage and sewerage works were taken up only in November 2003, while road construction was started in November 2002.

Thus, lack of planning and co-ordination by the Company led to unfruitful/ avoidable expenditure of Rs 98.37 lakh.

Implementation of drainage & sewerage systems

2.1.34 The Public Health Engineering Department (PHED) was entrusted (October 1998) by the State Government (before incorporation of the Company) with the laying of service pipelines like drainage, sewerage, water supply and solid waste management for NTP. An estimate for construction of drainage and sewerage systems in AA - I at a cost of Rs 63.97[56] crore was submitted (July 1999) by PHED. The works were to be completed by 2002-03 and 2003-04 respectively with funds to be provided by the Company. The entire work was subdivided into four sectors namely IA, IB, IC and ID. While the estimates for sewerage system in AA – IA were prepared and approved (January 2001) by the Company, those for the drainage system were prepared only in September 2001. But the Company approved (April 2002) the drainage system after a lapse of six months. Meanwhile, due to change of design from open drain with brick wall to RCC box drain and increase in Schedule of Rates with passage of time, the estimated cost increased (August 2003) to Rs 145.32 crore, which was approved (March 2004) by the Company.

Cost escalation on construction of drainage system was Rs 32.66 crore.

Based on detailed Schedule of Rates, work orders in AA - IA were awarded to 42 contractors during 2003-04 for Rs 11.37 crore, whereas in AA - IB, IC & ID, lump sum contracts for Rs 72.61 crore were awarded (November/ December 2003) to two[57] contractors without detailed analysis. Till January 2007, 98 and 99 *per cent* of drainage and sewerage lines works respectively were completed, at a cost of Rs 116.64 crore indicating cost escalation of Rs 32.66 crore, so far (March 2007).

[56] Drainage : Rs 30.97 crore, sewerage : Rs 33 crore
[57] Mackintosh Burn Limited & Engineering Projects India Limited

The Management stated (August 2007) that due to delays in communicating detailed information and layout plans to PHED and their inability to take up the work due non-completion of land filling works, the work of drainage and sewerage systems was delayed.

Defective drainage system

2.1.35 Since the NTP area is "water logged[58]", the soil sub-grade is subject to soaking due to high sub-soil water and capillary rise. The presence of excess moisture in soil sub-grade reduces strength of pavement materials and adversely affects road stability as well as other structures thereon. To overcome this problem, some of the following methods were to be adopted : -

- Depressing the sub-surface water level by suitable drainage system to ensure a minimum height of 60 cm between the sub-grade level and the highest water level,
- Raising of sub-grade by constructing embankments,
- Providing a capillary cut off to arrest the capillary rise of water,
- Providing vertical sand drains at suitable spacing and horizontal sand blanket at the top to ensure rapid drainage of water from foundation soil, and
- Road shoulders should be made up of impervious materials so as not to allow water to permeate into the body of pavement.

It was, however, noticed that the average of maximum water levels (in GTS) recorded (August to October 2005) in eight locations of NTP was (+) 2.393 metre. Consequently, the formation level of sub-grade soil should have been taken at (+) 2.993 metre (GTS). But, during execution, the formation level for NTP was kept between (+) 2.65 metre and (+) 2.75 metre GTS, indicating the need for a reliable drainage system.

Defective design of drainage system resulted in extra expenditure of Rs 16.84 crore.

In AA – I, the Company had designed the outfall (exit points) of the drainage system at average invert level of (+) 1.41 metre only. As a result, the Company had to install two drainage pumping stations (DPS) at an expenditure of Rs 16.84 crore, not been envisaged in the original estimate. Moreover, in the absence of peripheral drains, the water from the drainage system will not be able to flow into the outfall canals *viz.* Krishnapur and Bagjola, leaving the entire area inundated during heavy rainfall.

2.1.36 The environmental clearance permitted discharge of only 1.9 cusecs water into the Krishnapur canal. Yet, due to modification of design parameters, a ridge line was formed to ensure effective gravity drainage into Krishnapur canal, without studying the discharge- bearing capacity of the canal. This caused higher run-off of 4.26 cusecs rain water i.e. 124 *per cent* more into Krishnapur canal, leading to water-logging in the NTP area.

[58] Waterlogged areas are areas where the level of sub-soil water is within 1.5 m of the soil sub-grade

Failure to synchronise land development works with road/ drain constructed led to extra expenditure of Rs 4.90 crore.

Moreover, the Company failed to undertake development of roads and drains along with land development works. As a result, in AA – I, 3.69 lakh Cum of earth was re-excavated from developed stretches of land (June 2001 – January 2005) for laying (November 2002 – May 2005) of roads and drains, of which 2.82 lakh Cum had to be disposed of leading to excess expenditure of Rs 4.90 crore on excavation and disposal of earth.

Monitoring

Monitoring was inadequate.

2.1.37 The Company did not devise a Project Management Information System (PMIS) to report on works under execution, delays, periods of delay, revisions to the scheduled completion dates and comparative data of physical and financial achievement so as to take remedial action. Between 1999-2000 and 2006-07, there were delays of 13 to 66 months in completing 19 contracts; while 20 contracts scheduled to be completed by May 2006, were behind schedule by 10 to 83 months. For monitoring two[59] contracts, the Company paid (September 2001 – August 2006) Rs 43.63 lakh to two[60] Project Management and Coordination consultancy firms. In terms of the agreements, the firms were to assist the administration in monitoring the projects; review performances of the contractors; and to submit monthly progress reports. Despite appointing consultants, both the works were delayed by 66 and 14 months respectively. Due to these inordinate delays, the Management failed to hand over the plots to the respective owners within the committed period of delivery. Consequently, it was liable to pay penal interest of Rs 50.64 crore to the allottees up to March 2007. Thus, the monitoring mechanism was deficient in initiating appropriate action to overcome bottlenecks in project execution.

Internal Control

2.1.38 Internal control system is an essential pre-requisite for efficient and effective management of an organization. The following deficiencies were noticed in the internal control system being followed by the Company :-

- The Company had neither prepared a Works Manual nor adopted the provisions of the Public Works Manual. Further, the Company did not maintain site order books, work hindrance registers, inspection registers, material laboratory test registers etc.
- Six to fifteen *per cent* of the bills were to be checked by concerned General Managers (Engineering) and Executive Directors (Engineering), which was not done. Moreover, check measurement registers were not maintained.
- To ensure quality of land development, quality check should have been exercised by the Quality Control wing of the Company, in accordance with the Specifications for Road and Bridge Works.
- The Company did not develop the software for computerisation of contractors' running account bills to ensure arithmetical accuracy as

[59] 50 ha in AA - IC by MBL and 100 ha in AA - II by Bridge & Roof Co (I) Limited
[60] Gherzi Eastern Limited (Rs 30.95 lakh) and Consulting Engineering Services (Rs 12.68 lakh)

well as to maintain a complete record of work done. Moreover, this would help avoid delays in processing of bills and making payments to contractors, to speed up the progress of work.

Internal Audit

2.1.39 The Company had engaged a firm of Chartered Accountants since 2000-01 for internal audit of General Accounts, Fund Management and Performance Audit of works. But the quarterly reports submitted by the internal auditors did not include fortnightly visits to the project site with a civil engineer as provided in the terms of appointment, review of follow-up action on the deficiencies pointed out in internal audit reports and suggestions to effect efficiency in different areas of activity as specified in the terms of appointment. Thus, the important activities of the Company were not covered in internal audit and an important control element was thus missing.

Conclusion

The work for development of NTP was taken up without adequate planning and co-ordination as no long-term/ short-term plans were prepared which indicates the lack of foresight and commitment of the Company. The pace of land acquisition had fallen behind schedule due to absence of monitoring and delays in preparing drawings and proposals for land acquisition. Neither detailed project reports nor annual field plans for development were prepared. Synchronisation of development works like land filling, construction of roads and drainage / sewerage system to ensure minimum re-working was lacking.

Land was acquired either below prevailing rates or above market rates without any detailed justification. Measurements of work done were neither cross checked nor reconciled leading to doubtful payments to contractors. Excessive specifications led to increase in construction cost of roads while failure to follow specifications in respect of major arterial road occasioned additional expenditure towards repair. All this showed the inexperience of the Planning and Engineering Branch. Moreover, rehabilitation and resettlement programme was dragged along without concern for the land losers.

Recommendations

It is recommended that the Company should –

- **Prepare strategic time bound Detailed Master Plan for implementation of NTP.**
- **Prepare detailed project reports, field plans and fix milestones to effectively monitor and control NTP.**
- **Ensure synchronisation of land acquisition and land development works and chalk out a schedule for acquisition of the balance land within a specific time frame.**
- **Expedite finalisation of tenders for land development so that time**

is not wasted during rainy season.

- **Fix the rates for different works in a rational manner with reference to IRC/ MOST/ MORTH norms. Company must also employ experienced and qualified people for preparation of realistic estimates other wise they will continue to make losses as in the case of earth excavation and taking to lead. All branches of the Company should be made accountable.**
- **Ensure timely rehabilitation and resettlement of those whose land was acquired for NTP.**
- **Strengthen the monitoring mechanism, internal control system, etc.**

The matter was reported to the Government (July 2007), its' replies were awaited (September 2007).

WEST BENGAL RURAL ENERGY DEVELOPMENT CORPORATION LIMITED AND WEST BENGAL STATE ELECTRICITY BOARD

2.2 IMPLEMENTATION OF RURAL ELECTRIFICATION SCHEMES IN WEST BENGAL

Highlights

Against the target of electrifying all villages and habitations by March 2007 under Rural Electrification Policy and Rajiv Gandhi Grameen Vidyutikaran Yojana, 34,448 of 37,910 inhabited *mouzas* in the State, were electrified. Similarly, against requirement of energising 1.11 crore rural households (RHHs), electricity was provided to only 35.40 lakh RHHs.

(Paragraphs 2.2.1 & 2.2.19)

During 2002-07, West Bengal Rural Energy Development Corporation Limited (WBREDC) had funds of Rs 806.84 crore for executing 12,438 schemes as well as energisation of 2,688 pump sets. Against which, it spent Rs 650.15 crore for completing 10,625 schemes and energising 1,487 pump sets.

(Paragraphs 2.2.15 & 2.2.20)

Similarly, West Bengal State Electricity Board (WBSEB) had funds of Rs 426.29 crore for executing 6,853 schemes as well as energisation of 1,825 pump sets during 2002-07. Against which WBSEB spent Rs 251.13 crore for executing 8,154 schemes and energising 1,174 pump sets during the same period.

(Paragraph 2.2.17)

The execution of schemes were delayed by four to seven years due to deficient planning, delays in issuing erection orders, non-availability of materials, fixing of unrealistic targets, lack of customers' response and lack of monitoring. Consequently, 1,823 *mouzas* were energised with a cost-overrun of Rs 9.12 crore.

(Paragraphs 2.2.23 to 2.2.26)

Under RGGVY scheme, WBSEB and four Central Public Sector Undertakings were to electrify 4,283 *mouzas* to provide electricity connections to 1.46 lakh RHHs by December 2006. Till March 2007, 1,322 *mouzas* were electrified and only 24 *per cent* of targeted RHHs were covered, due to inept implementation by CPSUs as well as non-identification of RHHs below the poverty line.

(Paragraph 2.2.32)

Introduction

2.2.1 Rural Electrification (RE) is a vital programme for socio-economic development of rural areas. The National Electricity Policy, formulated (February 2005) by the Government of India (GOI), *inter-alia* states that the key objective of the development of the power sector is to supply electricity to all areas including rural areas as mandated in Section 6 of the Electricity Act, 2003 and both the GOI and the State Governments would jointly endeavour to achieve this objective. Accordingly, GOI introduced (March 2005/ August 2006) the Rural Electrification Policy (REP) and Rajiv Gandhi Grameen Vidyutikaran Yojana (RGGVY) which aim at electrifying all villages and habitations by March 2007 and providing access to electricity to all rural households by March 2012.

2.2.2 Since 1970-71, West Bengal State Electricity Board (**WBSEB**) had been executing RE schemes in the State. Subsequently, as a part of the power sector reform programme of the State, West Bengal Rural Energy Development Corporation Limited (**WBREDC**) was incorporated (August 1998) as a wholly owned Government company under the Companies Act, 1956 for execution of RE Works for supply of electricity in rural areas by developing conventional and non-conventional energy sources as well as for taking-over transmission and distribution of power in the rural areas from WBSEB and The Durgapur Projects Limited. WBREDC started its functioning from March 2000.

2.2.3 The execution of RE works involves activities such as: electrification of virgin *mouzas*[1], intensification[2] of already electrified *mouzas*, revitalisation of *mouzas* where installations had been stolen/ damaged, energisation of pump sets and development of distribution network through system improvement works.

2.2.4 The State Government decided (February 2000) that till field level infrastructure of the WBREDC was set up for RE works, the same would be executed by WBREDC through Zilla Parishads (ZPs) and Panchayat mechanism with the assistance from WBSEB. As the infrastructure was not yet developed, both WBREDC and WBSEB were engaged with the implementation of RE schemes. Besides, to speed up the electrification of *mouzas* in four districts, four CPSU[3]s namely NHPC, NESC, DVC and PGCIL also executed turnkey works in those districts. Further, WBREDC engaged WEBREDA[4] to effect electrification through renewable energy sources in distant areas where the grid was unable to reach.

[1]Mouza is the administrative unit in the lowest rung identified by a distinct jurisdiction ledger number, maintained by land revenue authorities

[2] Intensification means the work of extension of distribution net-work within an electrified mouza to connect more consumers.

[3] Central Public Sector Undertakings – National Hydroelectric Power Corporation Limited, NTPC Electric Supply Company Limited, Damodar Valley Corporation and Power Grid Corporation of India Limited

[4] West Bengal Renewable Energy Development Agency

2.2.5 As per 1991 Census, the total rural inhabited *mouzas* in 17 districts of the State was 37,910, of which 80 *per cent* (30,501) were electrified till 31 March 2002. During 2002-07, WBREDC and WBSEB together electrified 3,277[5] *mouzas*, intensified 14,375 electrified *mouzas*, revitalised 1,127 *mouzas* and energised 2,661 pump sets through conventional grid, while WBREDA electrified 657 *mouzas* through non-conventional energy sources. This apart, WBSEB and WBREDC executed system improvement schemes for installation/ augmentation of sub-stations, shunt capacitors as well as drawing transmission and distribution lines. During 2002-07, WBSEB and WBREDC together spent Rs 909.33 crore[6] on execution of RE works.

Organisational set up

2.2.6 The management of the Rural Electrification (RE) wing of WBSEB is looked after by the Chief Engineer (Distribution and RE) who directly reports to the Member (Operation). The Chief Engineer is assisted by eight Project Managers for execution of RE schemes in different districts. Similarly, the Managing Director is the Chief Executive of WBREDC who is assisted by the Advisor, the Consultant, four Superintending Engineers and the Finance Manager in the execution of RE Works. For supervision of RE works in the district and block level, District Rural Energy Committees and Block Rural Energy Committees were constituted (December 1999). The Government constituted (July 2002) the Task Force to co-ordinate the rural electrification works and advise the Government on these issues.

2.2.7 An Audit paragraph on ‘Rural electrification works in Midnapur, Bankura and Purulia districts’ and a review on ‘Power sector reforms – implementation of the terms of the MOU’ were included in the Reports of the Comptroller and Auditor General of India for the years ended March 2001 and 2002 (Commercial), Government of West Bengal respectively. The Committee on Public Undertakings had not selected the Audit Paragraphs for discussion. Delay in availability of materials, poor performance of contractors, lack of co-ordination among ZPs, WBREDC and WBSEB and failure to boost up the consumers to take service connections were highlighted in those paragraphs. The deficiencies still persisted, as discussed in the succeeding paragraphs.

Scope of Audit

2.2.8 The performance review with regard to implementation of RE Works by the WBSEB and WBREDC during 2002-03 to 2006-07 was conducted (February - July 2007) through examination of records at Headquarters office at Kolkata of both WBSEB and WBREDC and of five[7] out of 19 districts. The districts were selected randomly on the basis of percentage of rural households (RHHs) not electrified, representing 31 *per cent* of the total RHHs not electrified in the State.

[5] Includes 972 *mouzas* electrified by four CPSUs
[6] WBSEB – Rs 251.13 crore, WBREDC – Rs 658.20 crore including Rs 8.05 crore provided to WBREDA for energisation through non-conventional grid.
[7] Jalpaiguri, Murshidabad, Malda, Burdwan and Dakshin Dinajpur

Audit objectives

2.2.9 The performance audit was undertaken with a view to assessing whether:

- an efficient and effective long term strategic plan for execution of RE works was devised and implemented;
- annual plan was developed in accordance with strategic plan and implemented;
- the RE schemes were carefully designed and sanctioned in consonance with long term and short term strategic plans;
- WBREDC/ WBSEB had fixed targets in line with the sanctioned schemes and actual achievement was consistent with the targets;
- the funding requirements were realistically assessed, the funds were sanctioned and released in time by the State Government and other financial institutions;
- scheme funds drawn were put to effective use in a time bound schedule and there were no refunds or diversions;
- the co-ordination among the ZPs, WBREDC and WBSEB was adequate and effective;
- WBREDC had put in place an effective system of monitoring the implementation of RE works and followed the same efficiently;
- an Internal Control mechanism was in place and was operated efficiently; and
- the RE works executed were periodically reviewed to assess how far rural people were benefited from the said works.

Audit Criteria

2.2.10 The performance audit with regard to the implementation of RE schemes by WBREDC and WBSEB was assessed against the :

- objectives of WBREDC;
- provisions in the Electricity Act, 2003, the National Electricity Policy (February 2005), the Rural Electrification Policy (August 2006) and RGGVY scheme (March 2005) of GOI;
- guidelines issued by the GOI and the State Government for implementation of RE schemes;
- annual plan, and
- agenda notes and minutes of the meetings of the Board of Directors.

Audit methodology

2.2.11 Audit adopted a mix of the following methodologies for achieving the audit objectives keeping in view the audit criteria :

- examination of the planning and implementation procedure with reference to provisions in the Electricity Act, 2003, National Electricity Policy (February 2005), Rural Electrification Policy (August 2006) and RGGVY scheme;
- verification of monthly progress reports/ returns;
- review of RE schemes drawn up by the ZPs and their consequences with State Plan/ objective;
- scrutiny of records relating to schemes execution, procurement of materials, receipt of funds and actual expenditure, and
- interaction with the management and issue of audit queries.

Audit findings

The audit findings were reported (August 2007) to the Government/ Management and discussed (3 October 2007) at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE), where the Government was represented by the Special Secretary, Department of Power, Government of West Bengal and the Managements by the Chairman-cum-Managing Director, West Bengal State Electricity Distribution Company Limited[8] and the Managing Director of West Bengal Rural Energy Development Corporation Limited. The review was finalised after considering the views of the Government/Management.

Audit findings are discussed in the succeeding paragraphs.

Planning

RE works were undertaken without physical and technical survey.

2.2.12 Initially, in terms of the MOU (May 2001) between GOI and State Government all villages were to be electrified by March 2006. Thereafter, REP required electrification of all villages by March 2007 and providing access to electricity to all households by 2012. To achieve these goals, the State Government was to prepare and notify a REP by February 2006 and intimate the same to the West Bengal Electricity Regulatory Commission (WBERC). The REP was prepared only in August 2007, but is yet to be notified (September 2007).

The BoD of WBREDC directed (June 2000) the management to conduct physical and technical survey of all blocks of the State for updating the position of electrified and non-electrified *mouzas* so as to draw effective strategic plan. Against 341 blocks in 18 districts of the State, survey was

[8] A successor Company of erstwhile WBSEB, operational since 1 April 2007.

conducted (August 2001- January 2004) in 13[♦] blocks of Howrah district only. But WBREDC took up RE works since 1999-2000 in all the districts without survey for priortisation and comprehensive planning. WBREDC stated (October 2007) that RE works were undertaken after survey as the names of the schemes were proposed by the District RE Committees to it. The contention is not acceptable as mere proposing of the names of the schemes did not absolve WBREDC from the responsibility of conducting physical and technical survey for formulating long term planning.

Only 31 *per cent* of total virgin *mouzas* was planned for electrification.

2.2.13 Against 37,910 inhabited *mouzas* in 17 districts of the State as per 1991 Census, 29402 *mouzas* (78 *per cent*) were electrified by WBSEB as on 31 March 1999 of which only rural areas of Howrah district were 100 *per cent* electrified. After its formation, WBREDC sanctioned (1999 -2003) 14,025 schemes formulated by ZPs, to electrify 2,634 out of 8,508 balance virgin *mouzas* as well as to intensify (9,844) and revitalise (1,547) electrified *mouzas* and to install 3,002 agricultural pump sets at an aggregate capital outlay of Rs 863.98 crore. After March 2003 WBREDC did not sanction any scheme till 31 March 2007. Thus, as compared to total virgin *mouzas* (8,508) as on 31 March 1999 the planning for electrification of virgin *mouzas* (2,634) was 31 *per cent* and lacked focus and direction required for achievement of objectives of REP. WBREDC stated (October 2007) that it sanctioned schemes according to the availability of funds and demand of different ZPs and objective of cent per cent *mouza* electrification as outlined in REP was a subsequent development. The reply indicates the lack of planning because despite availability of funds WBREDC failed to formulate the schemes in line with the requirement of MOU which envisaged cent per cent electrification by March 2006 itself, subsequently extended to March 2007.

Sources and utilisation of funds

WBREDC

2.2.14 For execution of RE works, WBREDC received loans aggregating Rs 413.28 crore from REC through the State Government at interest rates ranging from one to three *per cent* per annum during 2002-07. Besides, it obtained further loans aggregating Rs 205.79 crore from the State Government under PMGY[9] (Rs 80.01 crore) and MNP[10] (Rs 125.78 crore) programme at interest rates varying from 12.5 to 14 *per cent* per annum as well as plan grant (Rs 6.11 crore). Further, it had unutilised funds of Rs 187.77 crore at the end of March 2002. The details of receipt and utilisation of funds are given at **Annexure-14**.

In this connection the following points were noticed :

♦ Amta-I, Amta-II, Bagnan-I, Bagnan-II, Shyampur-I, Shyampur-II, Uluberia-I, Uluberia-II, Jagatballavpur, Sankrail, Bally-Jagacha, Domjur Panchla and Udaynarayanpur,

9 Pradhan Mantri Gramodaya Yojana

10 Minimum Needs Programme

Low utilisation of funds

Schemes funds were invested in term-deposits, while sanctioned schemes were not implemented as scheduled.

2.2.15 Against Rs 806.84 crore available for executing 12,438 RE scheme and emerging 2,688 pump sets, WBREDC utilised Rs 650.15 crore (81 *per cent*) during 2002-07 for implementing 10,625 schemes (85 *per cent*) and energising 1,487 pump sets. The utilisation of funds increased from 48 *per cent* (2002-03) to 77 *per cent* (2005-06), but drastically declined to 38 *per cent* (2006-07). Out of the unspent funds ranging from Rs 149.56 crore to Rs 162.80 crore (2002-03 to 2006-07), the Company invested Rs 65 crore to Rs 132.41 crore in short term fixed deposits for a period ranging from 15 to 365 days with the approval (October 2002) of the BoD. But during the same period, 1,813 targeted schemes (virgin-604, intensification-1,031, revitalisation-178) and installation of 1,201 agricultural pump sets were not taken up for execution, as discussed in Paragraph 2.2.20. Consequently, objectives for which funds were received could not be achieved. WBREDC accepted (October 2007) the audit observation. The reply was, however, silent as regards action taken to ensure the optimum utilisation of funds for RE works.

2.2.16 The State Government used to deposit funds in the Deposit Account of WBREDC maintained by the Pay and Accounts Officer (PAO), Kolkata. Mention was made in the Paragraph No. 3B.4(i) of the Report of the Comptroller and Auditor General of India (Commercial) 2001-02, Government of West Bengal that due to delay in drawal of funds from the Deposit Account by WBREDC during 1999-2002, the funds in the Deposit Account were available with the State Government to ease its ways and means position, while WBREDC had to incur a liability of Rs 18.19 crore as of March 2002 towards interest on undrawn amount of loan. The Government assured (September 2002) that action had been taken by WBREDC to utilise the funds released.

Delays in drawal of funds from the deposit account led to acceptance of interest liability of Rs 5.08 crore without utilisation of funds.

It was, however, noticed that the malady still persisted in as much as out of 22 deposits of Rs 380.56 crore during 2002-05 in the deposit account, the amounts were drawn by WBREDC after delays of 33 to 228 days in ten cases and 15 to 28 days in seven cases**.** Consequently, the WBREDC had to bear liability of Rs 5.08 crore towards interest at the rate of four *per cent* per annum. This indicated lack of planning for funds requirement with reference to the implementation schedule. WBREDC accepted (October 2007) the audit observation. The reply was silent as to why no corrective action was taken against the persistent malady.

Audit analysis revealed that low utilisation of funds was attributable to delays in completion of RE schemes due to lack of planning, deficient monitoring and control on implementation, as discussed in succeeding paragraphs.

WBSEB

2.2.17 WBSEB received (2002-07) Rs 384.12 crore under different programmes[11], besides unutilised funds of Rs 42.17 crore at the end of March 2002. The year-wise details of funds received vis-a- vis utilised are given at **Annexure-14**.

2,899 schemes and energisation of 651 pump sets were not executed despite availability of funds.

It was noticed that against the aggregate available funds of Rs 426.29 crore for executing 6853 schemes and energising 1,825 pump sets, WBSEB utilised Rs 251.13 crore (59 *per cent*)for implementing 8154 (119 *per cent*) schemes and energising 1,174 pump sets. During 2002-06 the utilisation of the funds was very poor varying between seven and 20 *per cent* which increased to 47 *per cent* in 2006-07. The poor utilisation of funds was mainly due to execution of RE works without any target during 2003-06. Consequently, funds ranging from Rs 81.93 crore to Rs 276.46 crore remained idle in the current accounts of WBSEB during 2002-07 instead of keeping the funds in the separate accounts for RE works. But during the same period, 2899 schemes and energisation of 651 agricultural pump sets were not executed (March 2007), as discussed in Paragraph 2.2.31. Thus, despite availability of funds, management's inertia to execute RE schemes ultimately delayed the achievement of objective of REP.

Programme management

2.2.18 With a view to achieve the objective of accelerated rural electrification in close co-ordination with WBREDC, WBSEB, ZPs and the District-level Rural Energy Committees (DLREC), the Government issued (February 2000) guidelines for workable modalities. As per the guidelines, the ZPs/ DLRECs were to identify the schemes in consultation with WBSEB. After identification, the cost estimates prepared by WBSEB and vetted by ZPs are submitted to WBREDC for sanction. Thereafter, Additional Executive Officers (AEOs) issue work orders to the concerned divisions of WBSEB which in turn issue the erection orders on the enlisted contractors for erection of overhead lines and distribution sub-stations with the materials issued by the ZPs. On completion of the erection work, WBSEB energises the lines for giving connections to consumers, and earning revenue by raising bills. WBREDC releases funds to ZPs for execution of works. Thus, co-ordination among WBSEB, WBREDC and ZPs was imperative for implementation of RE schemes. But the lack of co-ordination delayed the completion of works, as discussed in succeeding paragraphs.

Status of implementation of RE schemes

2.2.19 Against the target of electrification of all the inhabited *mouzas* (37,910) in 18 districts of the State by 31 March 2007 as per REP**,** 34,448 (91 *per cent)* were electrified by WBREDC, WBSEB and WBREDA as on that date (**Annexure-15**). It is seen from the Annexure 15 that the coverage of districts was not equitable. Further, out of total 11,924 Scheduled Castes (SC)/ Scheduled Tribes (ST) *mouzas*, 32 *per cent* remained unelectrified.

[11] RGGVY (Rs 30.60 crore), Zilla Parishad Development Programme (Rs 16.23 crore), Member of Parliament Local Area Development (Rs 45.38 crore), Bidhayak Elaka Unnayan Prakalpa (Rs 32.65 crore), Rural Infrastructure Development Fund (Rs 213.03 crore), Jawahar Rojgar Yojana (Rs 0.02 crore), Rashtriya Shram Vikas Yojana (Rs 0.25 crore) and other sources (Rs 45.96 crore)

The target for 100 *per cent* electrification of *mouzas* was not achieved. Besides, only 32 *per cent* of rural household was electrified.

Similarly, 22,343 and 1,127 *mouzas* were intensified and revitalised by WBREDC and WBSEB till 31 March 2007 while only 18 *per cent* (1.14 lakh) pump sets against the estimated potential of 6.50 lakh were energised as on the same date. Similarly, against the target for electrifying all rural households (1.11 crore) by 2012, only 32 *per cent* (35.40 lakh) were electrified as of 31 March 2007.

The implementation of RE works was lagging behind the schedule, as discussed in the succeeding paragraphs.

Implementation of RE schemes by WBREDC

Targets vis-a-vis achievement

2.2.20 Till 31 March 2002, WBREDC completed 1,587 schemes (11 *per cent*) and installed 314 pump sets out of 14,025 sanctioned schemes for electrification, intensification and revitalisation of *mouzas* and installation of 3,002 agricultural pump sets (Paragraph 2.2.13). Thus, 12,438[12] schemes (89 *per cent*) were to be executed and 2,688 pump sets energised during 2002-07. WBREDC indicated its' yearly target in the annual plans. The year-wise target *vis-à-vis* achievement relating to electrification, intensification, revitalisation of *mouzas* and energisation of pump sets during 2002-07 are as given below :

(Figures in number)

Year	Virgin		Intensification		Revitalisation		Pumpsets	
	Target	Achievement	Target	Achievement	Target	Achievement	Target	Achievement
2002-03	500	407 (81)	2,800	1,784 (64)	800	169 (21)	1,000	312 (31)
2003-04	1,250	247 (20)	1,500	1,227 (82)	200	161 (81)	1,000	476 (48)
2004-05	1,460	423 (29)	1,460	2,023 (139)	200	262 (131)	1,000	406 (41)
2005-06	1,000	345 (35)	1,500	1,602 (107)	400	408 (102)	600	165 (28)
2006-07	845	401 (47)	2,056	1,039 (51)	308	127 (41)	809	128 (16)

(Figures in brackets indicate percentage of achievement to target)

In this connection the following points were noticed :

Failure to achieve the target for *mouza* electrification ranged between 19 and 80 *per cent*.

2.2.21 WBREDC increased the yearly target for *mouza* electrification upto 2004-05 without considering the actual achievement for earlier years. Subsequently, the targets were progressively reduced during 2005-07, but even these modest targets could not be achieved despite availability of funds. The achievement drastically reduced from 81 *per cent* (2002-03) to 47 *per cent* (2006-07). WBREDC accepted (October 2007) the audit observation. The reply, however, fails to indicate the efforts made to complete the pending works in time bound manner.

[12] Electrification of virgin mouzas – 2,427, intensification of mouzas – 8,706, revitalisation of mouzas – 1,305

It was observed that during execution, ZPs of different districts, without approval of the WBREDC took up additional 528[13] schemes for execution, while 47[14] sanctioned schemes were dropped without any recorded reason. WBREDC did not also ascertain the reasons from ZPs. While accepting the facts, WBREDC stated (October 2007) that it had no control over the performance of ZPs. The reply itself indicates the lack of monitoring and control on the execution of works by ZPs.

Low priority was accorded for electrification of virgin *mouzas* as compared to intensification and revitalisation works.

2.2.22 As of 31 March 2002, there were 7409 unelectrified *mouzas*, (20 *per cent*) to be electrified by 31 March 2007. Against this, WBREDC actually electrified only 1823 virgin *mouzas* (25 *per cent*). But the achievement for intensification (64 – 139 *per cent*) and revitalisation (21 – 131 *per cent*) stood higher than the targets achieved against the electrification of virgin *mouzas*. This indicated that WBREDC had not only drawn up schemes for electrification of virgin *mouzas* below requirement but also failed to fulfil the targets due to low priority being accorded to electrification of virgin *mouzas* in comparison to intensification and revitalization works. While accepting the facts, WBREDC stated (October 2007) that achievement in intensification/ revitalization was easier than the virgin *mouza* electrification as it involved erection of high/ low tension lines, transformers and development of consumers. The reply indicates lack of planning and co-ordination to achieve the objectives of cent per cent rural electrification in time bound manner.

Delays in completion of RE schemes

2.2.23 Review of the erection orders revealed that time fixed for completion of works did not exceed six months. Thus, the balance 12,438 schemes (89 *per cent*) and installation of 2,688 pump sets (90 *per cent*) should have been completed by 2003-04. Despite availability of funds, 1,813 schemes (15 *per cent*) and installation of 1,201 pump sets (45 *per cent*), however, remained incomplete as on 31 March 2007. Moreover, of these incomplete schemes, ZPs did not yet commence work for 340 schemes without any recorded reason, while another 176 were not taken up due to disputes and uninterested consumers. Further, though all works were completed in respect of 189 *mouzas*, they were not energised till 31 March 2007 for which no reason was on record.

Even after slippages of four to seven years from the date of sanction of the schemes, WBREDC failed to devise effective planning mechanism to expedite the commencement of 516 schemes as well as to energise 189 *mouzas*. As a result of inordinate delays in completion of works, rural people were deprived of getting electricity, despite availability of funds.

It was noticed that the ZPs did not maintain the scheme-wise data base namely, scheduled date of completion, date of commencement of works, reasons for delay and cost incurred etc. WBREDC did not take up the matter with ZPs, indicating lack of control and monitoring over ZPs. WBREDC,

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[13] Electrification of virgin *mouzas*-81 schemes in six districts, intensification-425 schemes in twelve districts, revitalisation-22 schemes in four districts.
[14] 21-intensification schemes in three districts, 26-revitalisation schemes in seven districts.

however, attributed (May 2003 – March 2007) the time overrun to delay in availability of materials, poor consumer response, delay in obtaining way leave permission[15], taking up of additional schemes by ZPs and poor performance of erection contractors. The Management could have obviated these problems by better planning and co-ordination mechanism. Delays in completion of 1,823 schemes led to cost overrun of Rs 9.12 crore, as calculated in audit. While accepting the facts, WBREDC stated (October 2007) in the ARCPSE meeting that all the ZPs are being instructed to complete the pending works by December 2007.

2.2.24 Audit of execution of schemes in test-checked districts revealed that in 2002-07 out of 6,717 schemes including installation of pump sets valuing Rs 207.42 crore 1,760 schemes (26 *per cent*) valuing Rs 60.96 crore remained incomplete as of 31 March 2007.

In this connection the following points were noticed :

2.2.25 Divisions of WBSEB inordinately delayed placing of 2,319 erection orders on the contractors which ranged from one month to 50 months[16]. The contractors failed to complete the work within the scheduled period of one month to six months and 2,075 orders were completed after a slippage of one month to 70 months [17]mainly due to non availability of materials, poor performance of contractors and lack of customers' response. Effective remedial action was, however, not taken to ensure completion of the schemes by 31 March 2007.

Delay in completion of schemes led to loss of potential revenue of Rs 6.51 crore.

Further, in spite of enabling provisions in the work order, no liquidated damages (LD) were recovered from the contractors by ZPs for poor performance. In the absence of detailed records at the district level, the exact amount of LD leviable could not be worked out in audit. This indicates lack of planning and control over the implementation of schemes. Consequently, 1,760 schemes were not completed as on 31 March 2007 even after lapse of four to eight years from the date of sanction of the schemes. This led to loss of potential revenue of Rs 6.51 crore[18], as 90,402 targeted consumers were not given new connections. While accepting the facts WBSEB stated (October 2007) that the efforts were being made to find out the cases where LD would be leviable and necessary action would be taken in due course. The reply was silent as to why such action was not initiated earlier.

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[15] Way leave permission means permission required to be obtained from landowners for erection/ passing of electrical installations/ lines/ poles/ towers etc.

[16] one month to 10 months (1,975), 11 to 20 months (246), 21 to 30 months (71), while balance 27 orders were placed after delays of 31 to 50 months

[17] one month to 10 months (435), 11 to 20 months (709), 21 to 30 months (475), 31 to 40 months (271), 41 to 50 months (110), while the remaining 75 orders were delayed by 51 to 70 months

[18] Number of months delay for placing erection orders and delay in completion of works X no. of prospective consumers (90,402) X Rs 30 as minimum charges recoverable from consumers

Delay in effecting service connection to consumers led to blocking up of funds of Rs 2.17 crore incurred on rural electrification schemes

2.2.26 Schemes for electrification of 78 *mouzas* were completed (August 2001 – September 2006) in three [19]districts between August 2001 and September 2006 at a cost of Rs 2.17 crore. Even after lapse of six months to five years, WBSEB failed to effect service connections to 3,879 beneficiaries due to non-response from consumers. The District Rural Energy Development Committee advised (June –December 2006) the Panchyat Samities of these *mouzas* to motivate the consumers to take service connection. But there was nothing on the record to indicate that the Samities took up the matter with the consumers. These *mouzas* were yet to be energised as on 31 March 2007 leading to blocking up of funds of Rs 2.17 crore. Physical verification was never conducted to ascertain the existence of these assets. The Chairman, WBSEB assured in the ARCPSE meeting (October 2007) to take necessary corrective action to effect the service connections as well as to conduct physical verification of installations.

Delay in augmentation of transformers capacity

Delay in installing/ augmenting distribution transformers led to blocking up of funds of Rs 0.96 crore.

2.2.27 To provide service connections to 326 consumers in 11 locations of Murshidabad District, electrification works were completed (December 2001 - December 2005) at a cost of Rs 96.02 lakh. Service connection charges and security deposit of Rs 1.30 lakh were also collected from the prospective consumers (April 2004 - April 2005). The service connections were, however, not effected as the Management failed to augment the capacity of 16 distribution transformers from 25 KVA to 63 KVA and 63 KVA to 100 KVA as well as to install three new 25 KVA transformers. The Management decided (April 2007) to take up the work at a cost of Rs 15.25 lakh. Thereafter, no further developments were noticed (September 2007). This indicates lack of planning and monitoring over the execution of works. Consequently, not only the targeted beneficiaries were deprived of getting electricity but also WBSEB failed to recover minimum electricity charges of Rs 2.85 lakh from the consumers, besides blocking of funds of Rs 96.02 lakh. The Chairman, WBSEB assured in the ARCPSE meeting (October 2007) to take corrective action.

Failure to issue erection orders led to non-effecting connections to STW consumers with consequential loss of potential revenue of Rs 0.83 crore besides idling of materials worth Rs 0.78 crore

2.2.28 Installations in respect of 103 agricultural pump sets in Murshidabad District were completed by WBSEB prior to 1990. The installations were reported (October 2002) to have been stolen. Meanwhile, WBREDC sanctioned (2000-01) schemes for electrification of 241 agriculture pump sets including the above 103 pump sets. WBREDC procured (January 2002 – September 2006) 740.384 Km of ACSR conductors at a cost of Rs 77.94 lakh for energisation of those 241 pump sets. WBSEB did not, however, issue any erection order for completion of the works so far (September 2007) for which no reason was on record. This indicated lack of co-ordination. Thus, even after lapse of 12 years, 241 consumers were not provided with connections resulting in loss of potential revenue of Rs 82.62 lakh[20] besides materials

[19] Murshidabad, Burdwan and Dakshin Dinajpur
[20] 241 consumers x energy charges at Rs 5460 per STW pumps without meter x three years (2002-05) = Rs 39.48 lakh +241consumers x energy charges of Rs 8950 for two years (2005-07)

worth Rs 77.94 lakh lying idle. WBSEB assured in the ARCPSE meeting (October 2007) to take corrective action.

Excess payment to erection contractors

2.2.29 The Divisional Engineers (DEs) of WBSEB issue erection orders to the contractors for erection of lines, poles etc. After completion of the works the bills submitted by contractors are certified by them and payments released by the ZPs to the contractors.

The Standing Committee (SC) of WBSEB enhanced (April 2005) the labour rates for different kinds of works by 22 to 38 *per cent* over the 2001 rates. The enhanced rates were to be applicable in respect of erection orders placed on and after 1 April 2005. Scrutiny of erection orders in test-checked districts revealed that 109 erection orders were placed (May 2000 - February 2004) in Murshidabad district. Though these orders were issued prior to 1 April 2005, DEs of WBSEB, in deviation of the order of the Standing Committee, certified the contractors' bills towards labour charges at enhanced rates. Based on this certificate, ZP paid (2005-06) Rs 99.50 lakh at the enhanced rates, instead of paying Rs 87.62 lakh, leading to excess payment of Rs 11.88 lakh to the contractors. WBSEB stated (October 2007) in the ARCPSE meeting that officers were being instructed to take up the matter seriously to plug this sort of excess payment.

Implementation of schemes funded by REC

157 virgin *mouzas*, 254 dalit bastis and 775 hamlets, were not electrified despite availability of funds due to inefficient implementation of the scheme.

2.2.30 With a view to accelerate the pace of rural electrification, REC introduced (February 2003) 'interest free' loan scheme for electrification of un-electrified villages, hamlets located in electrified areas by release of household, street lights and other connections as well as un-electrified dalit bastis having predominantly SC/ST population as identified by the State Governments. Under the scheme, loan assistance would be provided to the executing agencies on reimbursement basis through the State Governments for a period of 13 years (including three years moratorium) at interest rates of three *per cent* (electrification of villages and hamlets) and one *per cent* (electrification of dalit bastis) *per annum*. Further, if the schemes were implemented in scheduled time, interest so paid would be waived or refunded/ adjusted against the repayment of principal loan and thereby the schemes would be 'interest free'. In case of failure, interest would continue to be levied during the entire loan period of 13 years.

REC sanctioned (2003-04) loans aggregating Rs 507.59 crore for funding 9,698 such schemes, formulated by WBREDC, to electrify 765 virgin *mouzas*, 2,608 dalit bastis and 6,325 hamlets in all 18 districts by March 2005. In this connection the following points were noticed :

- WBREDC did not evolve any work plans detailing the requirement of funds and materials to complete the works within the scheduled time so as to avoid interest burden.
- WBREDC failed to complete even a single scheme within the due date. On the requests (January/ December 2005) of the State Government,

REC extended (April 2005/ March 2006) the time schedule twice upto 31 March 2006. While extending the time, REC asked (April 2005) WBREDC to prepare a bar chart showing the programme and steps taken for completing the works within the extended period. But WBREDC did not prepare the same. Even by the extended time period, the schemes were not completed.

- Till 31 March 2007, 8,512 schemes were completed for electrification of 608 virgin *mouzas*, 2,354 dalit bastis and 5,550 hamlets as the works for developing requisite infrastructure i.e. installation and erection of distribution transformers, HT and LT lines and energy meters were delayed.
- Against the target of installation and erection of 8,277 distribution transformers (25 KVA-100 KVA), 0.21 lakh Km HT and LT lines and 4.69 lakh energy meters by 31 March 2005, 12, 14 and 24 *per cent* works remained incomplete respectively even at the end of 31 March 2007. Consequently, WBREDC failed to effect 24 *per cent* service connections to 1.13 lakh targeted beneficiaries.
- The main reasons for delays were attributable to delay in supply of materials particularly distribution transformers, poor performance of the contractors and poor consumers' response. During monitoring (February 2006-February 2007) of schemes in 10 districts, REC pointed out the deficiencies in implementation, such as non matching of capacity of transformers installed with load demand, failure to fix load centres, shortage of DTs impeding load growth, snapping of earthing wires in DTs, damage/ removal of fuse cut-outs of DTs, sagging of wires and non-constitution of Village Level Electricity Committees to create awareness among the villagers to use electricity. These deficiencies indicated lack of planning, monitoring and control over the execution of works. Though REC asked the Management to take remedial action and to intimate the same, follow-up action taken and communicated to REC was not on record.
- Against the total expenditure of Rs 424.02 crore as of 31 March 2007, WBREDC received the reimbursement claim of Rs 413.29 crore. Further, due to failure to complete the schemes even by 31 March 2007 WBREDC closed (March 2007) the schemes. Consequently, WBREDC failed to draw Rs 83.57 crore from REC.

Failure to achieve the target for electrification led to interest burden of Rs 18.59 crore

Thus, due to inept implementation of the schemes, 254 targeted dalit bastis and 775 hamlets were deprived of getting electricity despite availability of funds. Besides, the schemes were not declared 'interest free', rather WBREDC was burdened with liability towards interest of Rs 18.59 crore during July 2005 to March 2007 and further interest of Rs 102.24 crore during the balance tenure of the loans. While accepting the facts, WBREDC stated (October 2007) that more proposals are being sent to REC for execution of RE works in the pending rural areas.

Implementation of schemes by WBSEB

WBSEB failed to achieve the target for energisation of virgin *mouzas* and pump sets by 67 and 36 *per cent*.

2.2.31 WBSEB fixed targets for execution of RE works for two years i.e 2002-03 and 2006-07 only during the period under review. The reasons for not fixing targets for three out of five years were not on record. It was noticed that during 2002-07 against the targets of electrification of virgin *mouzas* (4,353[21]), intensification of electrified *mouzas* (2,500) and energisation of pump sets (1,825), 67 and 36 *per cent* of targeted virgin *mouzas* and pump sets were not energised, mainly because of delays in completion of works. The achievement of intensification of *mouzas* (6,700) during the same period was, however, higher by 168 *per cent* over the targets mainly because WBSEB did not fix any targets for 2003-04 to 2005-06, whereas 4,723 *mouzas* were actually intensified during this period. This indicates lack of planning in execution of schemes.

During 2002-07, the WBSEB also implemented schemes under the Member of Parliament Local Area Development (MPLAD) and Bidhayak Elaka Unnayan Prakalpa (BEUP). On receipt of recommendations of the schemes from the MPs and MLAs, WBSEB prepared the schemes for sanction by MPs and MLAs. After receipts of funds from MPs and MLAs, WBSEB issued work orders for execution of the schemes.

Implementation of MPLAD and BEUP schemes was inadequate.

During 2002-07, WBSEB obtained sanctions for implementation of 2,523 schemes in test checked districts at an estimated cost of Rs 40.42 crore. But the execution of 2,278 schemes (90 *per cent*) was completed by March 2007 at a cost of Rs 34.36 crore (85 *per cent*). The execution of 245 schemes remained incomplete due to site dispute, delay in execution by the contractors, non-availability of materials, delay in issue of erection orders, delay in compliance of formalities by the Water Resources Development Directorate and non-response of consumers. WBSEB stated (October 2007) that every effort was being made to complete the pending works.

Electrification of virgin mouzas under RGGVY scheme

2.2.32 Under RGGVY scheme, WBSEB submitted (November 2004) the DPRs to REC for sanction of funds of Rs 497.04 crore for electrification of 4,394 *mouzas* in 13 districts[♥] of the State. REC sanctioned (April 2005) Rs 385.04 crore towards loan (10 *per cent*) and subsidy (90 *per cent*) for 4,283 *mouzas*. As per the terms of the sanction order, the schemes were to be executed by the contractors on turnkey basis. Before REC sanctioned the schemes, WBSEB decided (April 2004) to implement the schemes for electrification of the backlog of virgin *mouzas* in some districts by CPSUs[22] on turnkey basis. Accordingly, electrification of 3,826 virgin *mouzas* in four districts was taken up through four CPSUs at a cost of Rs 344.73 crore. The

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[21] Includes target of 4,263 *mouzas* for 2006-07

[♥] Darjeeling, Uttar Dinajpur, Dakshin Dinajpur, Malda, Murshidabad, Birbhum, Purulia, Bankura, East Midnapore, West Midnapore, Burdwan, 24 Parganas (North) and 24-Parganas (South).

[22] National Hydroelectric Power Corporation Limited, NTPC Electric Supply Company Limited, Damodar Valley Corporation and Power Grid Corporation of India Limited

balance 457 *mouzas* in nine districts were taken up by WBSEB for execution on turnkey basis at an estimated cost of Rs 40.31 crore. In total 1.46 lakh un-electrified rural households were required to be provided electricity.

Only 31 *per cent* of the targeted virgin *mouzas* was electrified, while 24 *per cent* of rural households was effected service connections even after expiry of schedule date.

The electrification of these *mouzas* was scheduled to be completed by May - December 2006. It was noticed that the works could not be completed within the scheduled time. Till 31 March 2007, 2,460 *mouzas* were completed in all respect, of which 1,322[23] were declared electrified. Against the target of electrifying 1.46 lakh RHHs, only 24 *per cent* were electrified as on 31 March 2007.

The reasons for not declaring 1,138 *mouzas* as electrified, though completed in all respects, were mainly due to non-finalisation of the list of BPL households to whom the connections were also to be effected. In respect of remaining 2,961 *mouzas*, 60,031 poles were erected in 1,650 *mouzas* and 5,190 distribution transformers were installed. The total expenditure incurred was Rs 222.98 crore till 31 March 2007.

The reasons for delay in execution were attributable to lack of co-ordination amongst the Panchayat, WBSEB and CPSUs, delay in identification of project site, delay in preparation of DPRs by WBSEB and approval of DPRs by REC, deficiencies in making detailed survey, non-approval of drawings within scheduled date by the WBSEB, delays in erection and installation of poles and distribution transformers by the executing agencies. The Task Force directed (April 2006) the CPSUs and WBSEB to furnish the details of targets in regard to *mouzas* to be covered, poles to be erected, distribution transformers to be installed as well the achievements there against. None of them furnished the information to the Task Force, indicating absence of monitoring over the works. While accepting the facts, WBSEB stated (October 2007) that REC was approached (August 2007) for extension of time schedule of completion upto 31 March 2008. Further developments were awaited.

Thus, only 31 *per cent* and 24 *per cent* of the targeted virgin *mouzas* and rural households were electrified respectively even after expiry of schedule date (31 March 2007).

Non issue of certificates for electrification of villages

2.2.33 As per direction (February 2004) of the Union Ministry of Power (MOP), a village would be declared as electrified if the basic infrastructure such as distribution transformer and distribution lines are provided in the inhabited locality and at the same time it is provided in public places like school, panchayat office, health center, dispensaries, community centers and the number of household electrified should be 10 *per cent* of the total number of households in the village. The Gram Panchayat/ Village Council would issue the first certificate at the time of the village becoming eligible for declaration as electrified. If the Gram Panchayat unduly delays certification the State Government will appoint an appropriate independent agency to verify the status of electrification.

[23] CPSUs (972), WBSEB (350)

Village electrification certificates were pending for 66 *per cent* electrified villages under RGGVY scheme.

It was noticed that out of 1,322 *mouzas* electrified by WBSEB and four CPSUs under RGGVY, Gram Panchayats issued the requisite certificates in 443 cases (34 *per cent*) only. Against the electrification of 2,030 virgin *mouzas* by WBREDC during 2000-07, no certificate has been issued by the Gram Panchayats so far (September 2007). The State Government neither took up the matter with the Gram Panchayats to issue the requisite pending certificates nor did it appoint any independent agency to verify the status of electrification. WBSEB stated (October 2007) that action had since been taken to minimise the bottlenecks in the entire process of issuance of certificates by the Gram Panchayats.

Thus, the issue of electrification certificates by Gram Panchayats were pending for 66 *per cent* (WBSEB and four CPSUs) and 100 *per cent* (WBREDC) for electrified villages.

Implementation of System Improvement (SI) Schemes

2.2.34 REP aims at developing Rural Electricity Distribution Backbone (REDB) with setting up of at least a 33/11 KV sub-station in each block. WBREDC and WBSEB did not, however, assess the requirement and chalk out any plan to construct sub-stations in pending blocks (July 2007).

Meanwhile, WBSEB and WBREDC implemented (2002-07) system improvement schemes under RIDF[24]-VI, VII and VIII programmes at and below 33KV for setting up new 33/11 KV sub-stations as well as augmenting existing 33/11 KV sub-stations and distribution lines to avoid low voltage and frequent interruptions of power supply in the remote places of the State. The estimated cost of the schemes undertaken was Rs 405.18 crore.

The implementation of these schemes is discussed below:

Implementation of SI schemes by WBREDC

2.2.35 With a view to improve the voltage profile in the WBSEB's distribution network, WBREDC placed (August 2001) an order on Asea Brown Boveri Limited (ABB) for supply, erection, commissioning of 388 shunt capacitors in 33/11 KV sub-stations (44 nos.) and 11 KV overhead lines (344 nos.) in 17 districts at a total cost of Rs 12.08 crore. The cost of the project was to be funded out of the State Government's funds under RIDF-VI scheme approved by NABARD[25].

ABB supplied and commissioned (December 2002 and February 2003) the shunt capacitors. But the commissioning as well as the taking over certificates were not issued by WBSEB for 132 and 222 capacitors (600 KVAR) respectively.

It was noticed that out of ten shunt capacitors (1200 KVAR) commissioned in ten sub-stations and 98 capacitors (600 KVAR) commissioned in 11KV lines

[24] Rural Infrastructure Development Fund
[25] National Bank for Agricultural and Rural Development

of five selected districts (cost: Rs 3.31 crore), only two (600 KVAR) were in operation, while the balance 106 were non-functional since commissioning due to premature failure arising from inherent defects in control circuit, circuit elements, capacitor bank bushings etc.

Procurement of defective shunt capacitors led to infructuous expenditure of Rs 3.25 crore.

Though ABB failed to identify and rectify the defects, the Management did not take any action against ABB nor did it encash the bank guarantee of Rs 1.20 crore lying as 'Performance Security'. The guarantee periods of the capacitors had also expired (November 2003 - January 2004). Meanwhile, WBREDC released (February 2002 - September 2003) the entire contract amount (Rs 12.08 crore) to ABB. Thus, the objective of installing the shunt capacitors to improve the voltage did not fructify and the expenditure of Rs 3.25 crore incurred on 106 capacitors proved infructuous. WBREDC stated (October 2007) that the operation of shunt capacitors was looked after by WBSEB and difficulties were brought to the notice of ABB which had taken remedial measures for rectification and the guarantee had since been also extended. The fact, however, remains that the defects still persisted. Further, the reply is silent as to why action was not initiated earlier to encash the bank guarantee for faulty performance of ABB.

Delay and cost overrun in construction of sub-stations by WBSEB

2.2.36 During 2002-07 WBSEB took up works for construction of 96 new 33/11 KV sub-stations as well as augmentation of 87 existing 33/11 KV sub-stations at an aggregated cost of Rs 368.77 crore. As on 31 March 2007, the construction of 71 new sub-stations and augmentation of 77 sub-stations was completed after delays of one month to 35 months. The construction work in respect of 14 new sub-stations and augmentation of six sub-stations was in progress despite time over run of two to three years, while the execution of 15 sub-stations was not taken up. The expenditure incurred on execution of these works was Rs 293.69 crore as on 31 March 2007.

Twelve sub-stations were commissioned after time overrun of five to 60 months and cost overrun of Rs 3.54 crore, while another four sub-stations were not commissioned even after time overrun of 24 to 108 months.

Review of the construction and augmentation of 16 sub-stations in test checked districts revealed that 12 sub-stations were commissioned after time over run of five to 60 months and cost overrun of Rs 3.54 crore, while the works in respect of four sub-stations remained incomplete despite a time over run of 24 to 108 months. The details of awarding the work, estimated cost, time and cost overrun in respect of these sub stations have been indicated in **Annexure-16**. Further, due to delay in completion of Kumargram sub station (Annexure- 16), WBSEB failed to supply power to three estates, viz Kumargram, New Lands and Sankosh in the peak period (6 P.M. to 10 P.M.) during 2004-07 resulting in loss of potential revenue of Rs 2.26 crore on sale of 6.10 MU of power.

While accepting the facts, WBSEB stated (October 2007) that every effort would be made to complete the pending works.

The fact, however, remains that twelve sub-stations were commissioned after time overrun of five to 60 months and cost overrun of Rs 3.54 crore, while another four sub-stations were not commissioned even after time overrun of 24 to 108 months.

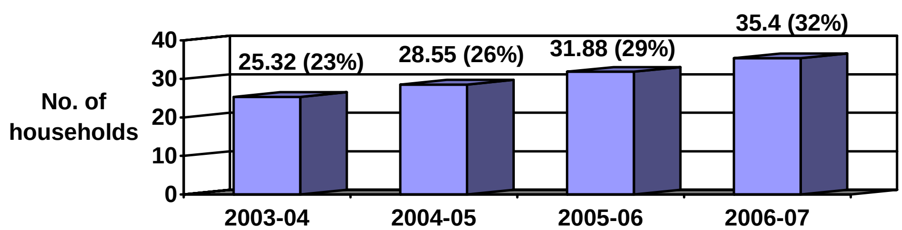
Electrification of rural households (RHHs)

2.2.37 The REP (August 2006) aims at providing access to all rural households (RHHs) in the country by 2012. Against 1.11 crore RHHs as per 2001 Census, the electrified RHHs were only 20 *per cent* (22.63 lakh). During 2002-07, no target was fixed for providing service connections to RHHs.

No target was fixed for effecting service connections to RHHs. Only 32 *per cent* of RHHs were electrified.

It was noticed that as of 31 *March* 2007, against the total RHHs (1.11 crore) only 32 *per cent* (35.40 lakh) was electrified and the present trend of growth (three *per cent*) of electrification was insufficient to electrify the balance 76 lakh RHHs by 2012 as shown in the graph below.

Position of rural households electrified at the end of the year
(Figures in lakh households)



In this connection the following points were noticed :

- Only 40 *per cent* RHHs were electrified in 13 out of 18 districts.

Electrification of RHHs was even poor in 100 *per cent* electrified *mouzas*.

- Out of five districts where 100 *per cent mouzas* were electrified, the electrification of RHHs was between 41 and 77 *per cent* in three districts, while the same ranged between 22 and 39 *per cent* in the balance two districts. This indicated that the benefit of 100 *per cent mouza* electrification was yet to reach the rural people of those districts.

- Under RGGVY scheme, four CPSUs and WBSEB were to effect service connections to 48,071 above poverty line (APL) households by December 2006. Till 31 March 2007, only 16 *per cent* (8,023) were electrified mainly due to delays in electrification of *mouzas* as discussed in Paragraph 2.2.32.

While accepting the facts WBSEB stated (October 2007) that proposals for RGGVY schemes to effect service connections to 70.52 lakh consumers had since been sent (September 2007) to REC for approval. Further, development was awaited.

Thus, the benefit of 100 *per cent* electrification of *mouzas* were yet to reach all the rural people in these districts.

Electrification of below poverty line (BPL) rural households

2.2.38 Under the Kutir Jyoti scheme, WBSEB provided connections for two points to households living BPL at a flat rate of rupees six per month per connection since November 1996. The charge was enhanced (January 1999/ April 2001) to Rs 10 and Rs 20 respectively. The State Government revised

(October 2004) the guidelines of the scheme and decided to provide single point domestic connection with one light point to persons living below the poverty line and belonging to SC/ ST community as well as those residing in declared dalit bastis. The State Government was to provide grant of Rs 1500 for each connection and any household consuming power beyond 25 units in a month would be liable to energy charges for all the units on the basis of recorded consumption as per meter reading. Subsequently, Kutir Jyoti scheme was merged with the RGGVY scheme which envisaged (March 2005) to provide connections to un-electrified BPL households free of cost as per norms of Kutir Jyoti. The cost of the works would be financed with 90 *per cent* subsidy and 10 *per cent* loan from REC.

In this connection the following points were noticed :

- No comprehensive list of BPL families had been prepared so far so as to determine the prospective beneficiaries, as in many cases families above the BPL norms were also included in the BPL lists certified by Panchayats.

- Up to March 2003, WBSEB effected 1.36 lakh connections to rural households including 4,339 for the year 2002-03. Since 2003-04, the work had been undertaken by WBREDC.

Failure to submit the list of actual beneficiaries led to refund of grant of Rs 3.06 crore to REC

- REC sanctioned (2002-03) a scheme for electrification of 54,560 SC/ ST households by WBREDC under BPL category at an estimated cost of Rs 8.18 crore. WBREDC received (March 2003) Rs 4.03 crore from REC by way of grant towards 50 *per cent* of the sanctioned amount. Subsequently, WBREDC sent (August 2004) to REC a list of 37,319 SC/ ST households to whom service connections were stated to have been effected, for releasing the balance sanctioned amount. The list had been prepared on the basis of surnames generally used by SC/ ST people whose monthly energy consumption was less than 25 units per month. After field survey, REC, however, detected (September 2004) some mistakes and reported that no reference of Kutir Jyoti connection was on the record and thus, it refused to accept the list.

  Subsequently, WBREDC submitted (July 2005) a revised list of beneficiaries of 6,533 SC/ ST households and preferred a claim for reimbursement of Rs 97.34 lakh. Ultimately, REC admitted (July 2005) the claim and asked WBREDC to refund the balance amount of grant of Rs 3.06 crore. As WBREDC failed to furnish the further list of beneficiaries, it refunded (January 2006) the amount of Rs 3.06 crore to REC. Thus, due to failure to finalise the prospective beneficiaries before effecting service connections, 88 *per cent* targeted SC/ ST households were deprived of getting electricity, despite availability of funds of Rs 3.06 crore. WBREDC accepted (October 2007) the audit observations. The reply was, however, silent why the names of ineligible beneficiaries were included in the list of beneficiaries.

Funds of Rs 1.51 crore remained unutilised in three districts due to non-availability of list of BPL beneficiaries.

- In 2006-07, WBREDC received further rupees two crore as plan grant for giving free connections to BPL families of which Rs 48.93 lakh was spent for effecting connections to 3,644 families only in three districts[26] till June 2007. The BoD directed (June 2007) that where RE schemes were not completed due to non-response of consumers and if those consumers happened to be BPL families, the balance amount of Rs 1.51 crore be utilised for giving connections to those BPL families free of cost. No such assessment has, however, been made so far (September 2007).

- Under RGGVY scheme, four CPSUs, entrusted with electrification of virgin *mouza* of four districts, were to provide service connections to BPL families free of cost. On the other hand, WBREDC, executing RE works simultaneously in those districts, were effecting service connections to BPL families after obtaining service connections charges from them. In order to remove this disparity, the BoD of WBREDC directed (June 2003) the management to prepare the details of BPL households in those districts falling under WBREDC schemes which would be electrified out of interest earnings of WBREDC from fixed deposits. Even after lapse of one year no such list has been prepared to pass on the benefit of free electric connections to those BPL families also.

Under RGGVY scheme only 27 *per cent* targeted BPL households was electrified.

- Under RGGVY scheme, four CPSUs and WBSEB were to effect service connections to 97,847 BPL households by December 2006. Till 31 March 2007, only 27 *per cent* (26,572) were electrified mainly due to non-finalisation of BPL list and slow progress of the works of the RGGVY scheme by CPSUs and WBSEB, as discussed in paragraph 2.2.32. While accepting the facts, WBSEB stated (October 2007) that the progress was hampered due to non-receipt of BPL list from the concerned authority and every action had been taken to get the BPL list from the block and district authorities.

Thus, failure of WREDC to submit the list of actual BPL beneficiaries led to refund of grant of Rs 3.06 crore to REC, funds of Rs 1.51 crore remained unutilised in three districts due to non-availability of list of BPL beneficiaries with WBSEB, with the result that only 27 *per cent* targeted BPL households were electrified under RGGVY scheme.

Reliability and quality of power supply

2.2.39 One of the goals of REP is to ensure improved quality and reliability of power supply. This encourages usage of energy efficient equipment/ appliances and leads to improve the availability of energy. The key performance parameters for quality and reliability are:

- Frequency of feeder tripping and average duration of feeder outages
- Failure rate of Distribution Transformers(DTs)

In this connection, the following deficiencies were noticed in the selected districts:-

[26] Bankura, Purulia and Darjeeling.

Feeder Tripping and Outages

Excessive feeder outages led to payment of interruption benefit of Rs 1.54 crore to industrial consumers.

2.2.40 The MOP had prescribed that feeder outages should be less than one per feeder per month. Against this prescribed level, the actual feeder outages were as high as 13 to 104 during 2005-07, as shown in the **Annexure -17**.

The excessive feeder outages, attributable mainly to lack of preventive maintenance and over-loading of transformers, led to interruptions in power supply. In terms of the tariff orders issued by WBERC from year to year, the demand charge would not be payable by any consumer to WBSEB for the period when the supply was interrupted due to any fault of WBSEB or its system. Due to the excessive feeder outages, WBSEB had to allow Rs 1.54 crore as interruption benefit[27] to the industrial consumers during 2005-07.

Failure of Distribution Transformers

2.2.41 The Distribution Transformers (DT) is a key component of the distribution network and its failure not only results in financial loss to the utility but also affects consumers' satisfaction due to interruption in power supply. For proper reliability, DT failure rate should be of less than 1.5 *per cent*. Against this norm, the rates of DT failure ranged between 11 and 24 *per cent* in the selected districts during 2004-07. The high failure rate of DTs was due to over loading, improper earthing protection, improper fuses, inadequate preventive maintenance etc.

While accepting the facts, WBSEB stated (October 2007) that action was being taken to reduce the feeder tripping and failure of distribution transformers.

Thus, excessive feeder outages and high incidence of failure of DTs indicated that the reliability of power supplied was low.

Revenue collection

2.2.42 In order to improve collection efficiency, RGGVY required that franchisees such as NGOs, Users Association, Co-operatives, the Panchayat institutions should be associated with revenue collection mechanism. WBSEB has not yet assessed the requirement of deployment of franchisee so far (July 2007). For meter reading at consumers' premises, it deployed self-help groups (SHGs) in districts. The revenue, however, is collected by Group Electric Supply Offices of WBSEB.

Leakage of revenue

2.2.43 After completion of electrification works by the erection contractors of ZPs, operation and maintenance division of WBSEB energise the lines. Thereafter, the contractors of Group Electricity Supply (GES) offices of

[27] Interruption benefit means refund of demand charge to consumers by way of adjustment with the energy bills due to non-supply of power owing to feeder outages.

WBSEB install the meters at the consumers' premises and hand over the meter reading cards to GES for generation of bills. At the same time ZPs also record the number of connections effected during a particular period. Thus, the figure of connections effected as per ZPs records and GES records should tally.

Lack of internal control led to leakage of revenue of Rs 1.51 crore

Scrutiny of 30 GES of five test-checked districts[28] revealed that during 2002-07 connections effected as per ZPs record were 43,820 while the same as per the records of GES offices was 22,792. The difference of 21,028 connections arose due to failure of contractors to hand over the meter reading cards to GES offices. WBSEB did not take any action against the defaulting contractors. Consequently, GES failed to raise bills on those 21,028 consumers resulting in leakage of revenue of Rs 1.51 crore[29] during 2005-07. WBSEB stated (October 2007) that station managers had been directed to monitor this aspect during periodical monthly meeting held at divisional level.

The fact however remains that lack of internal control led to leakage of revenue of Rs 1.51 crore during 2002-07.

Material Management

2.2.44 Material cost constituted nearly 80-81 *per cent* of the cost of the RE scheme. This calls for an efficient and scientific material management so that there is optimum use of scarce resources. For execution of RE schemes, WBSEB procures central items[30] on receipt of requisitions from WBREDC, while items like P.C.C. poles, M.S. angles, Disc insulators etc. are procured locally by ZPs. WBREDC provide funds periodically to WBSEB and ZPs for procurement of materials.

Material management technique was not devised.

It was noticed that WBREDC had not adopted requisite material management techniques viz. **(i)** preparation of material budget, **(ii)** classification of items for management reporting and fixation of norms, **(iii)** forecasting of material requirements and indenting procedure, **(iv)** fixation of responsibilities for undertaking various inventory analysis, **(v)** review and monitoring of inventory status with reference to norms and levels for various items, **(vi)** inventory control techniques and procedural guidelines for their application and **(vii)** computerisation of inventory system. This led to delay in procurement of materials as well as procurement in excess of requirement etc.

Though RE works were delayed due to delay in availability of materials, it was observed that materials like meters, pins, hardware fittings, isolators, pin insulators, disc insulators, 100 KVA and 25 KVA transformers were lying in the stock of 18 ZPs in excess of requirements valuing Rs 3.61 crore as on 31 March 2007 due to improper assessment of requirement by ZPs and allotment of materials to ZPs by WBREDC in excess of requirement, indicating lack of control over material.

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[28] Jalpaiguri, Murshidabad , Malda, Dakshin Dinajpur and Burdwan.
[29] 21,028 consumers X minimum charges of Rs 30 per month X 24 months
[30] Distribution transformers, meters, conductors, hardware fittings, etc.

WBREDC stated (October 2007) that due to lack of adequate infrastructure, total material management was not implementable.

Thus, non adoption of material management techniques led to delay in procurement of material in some cases as well as procurement of excess material in other cases.

Monitoring

Monitoring over the execution of RE schemes was deficient.

2.2.45 The Government constituted (December 1999) the Rural Energy Committee at the district and block level for reviewing and supervising the RE works. But it did not specify the periodicity of the meetings to be held at the district and block level. It was noticed that the number of meetings held was not documented in the ZPs of the test-checked districts. The decisions taken in those meetings were neither forwarded to the corporate office of WBREDC nor placed before the meetings of the BoD for effective follow-up action.

The BoD did not also review the scheme-wise physical as well as financial progress in spite of huge slippages, for taking corrective actions against the deficiencies in implementation of schemes.

The Task-Force constituted (July 2002) by the Government was to meet ‘as often as necessary’ and to submit a monthly report to the State Government with a copy to the Chief Secretary. The meetings of the Task-Force were only held on 16 occasions during August 2002 to March 2007. No report was, however, submitted to the State Government on the progress of RE works.

While reviewing the progress of RE works during 2003-07, the Standing Committee on Power and Non-Conventional Energy Sources, West Bengal Legislative Assembly observed the deficiencies in implementation of schemes and recommended that the Managements should take action to strengthen the co-ordination, boost up the consumers response, prepare the comprehensive BPL list, create awareness among the beneficiaries of the RGGVY schemes etc. Effective remedial actions have, however, not been taken so as to reach the targets as discussed in the Paragraphs *supra*. Thus the monitoring over the execution of RE schemes was deficient. In the ARCPSE meeting, the Government/ Managements accepted (October 2007) the audit observations. The Managements did not, however, indicate the actions taken to streamline the monitoring mechanism.

Internal control

2.2.46 Internal control system is an essential pre-requisite for efficient and effective management of an organisation. The following deficiencies were noticed in the internal control system:

- WBREDC released funds aggregating Rs 202.74 crore during 2002-07 to ZPs for executing RE schemes. But it did not devise any mechanism to obtain utilisation certificates from ZPs to ensure that funds were spent for specified purposes.

- WBREDC had no system of periodical reconciliation of advances released to ZPs and WBSEB.
- No mechanism was introduced to prioritise the implementation of schemes in districts.
- WBREDC had no mechanism to ensure that ZPs were implementing only the schemes sanctioned by it.
- WBREDC had not introduced any mechanism to obtain the scheme-wise details of expenditure from ZPs to ascertain the actual cost of completed and on-going schemes.
- The register of works, allotment register, scheme register, appropriation register, fixed assets register and separate cash books specifically for RE works by ZPs were not maintained by ZPs.
- Stock registers maintained by ZPs recorded quantity of materials received and issued without their values.
- No system of periodical reconciliation of local-purchase items of stock was introduced.
- Physical verification of fixed assets was not conducted periodically.
- Audit Committee constituted (February 2000) by WBREDC suggested that a system should be introduced at the corporate level to control the maintenance of accounts and stores in the districts. But no system has been evolved so far (September 2007) despite a lapse of three years.
- Accounts Manual has not been prepared so far (September 2007) by WBREDC.

Internal Audit

2.2.47 WBREDC did not have any internal audit wing of its own. It engaged (2002-07) firms of Chartered Accountants for conducting internal audit of fund management, stock verification, reconciliation of central items and contingent expenditure of ZP of each district. Important activities of RE works viz. scheme wise expenditure, utilisation of materials, fund management, performance of contractors etc. were not covered in internal audit. There was nothing on the record to indicate that the corrective action was taken by the Management on the Internal Audit Reports. The BoD did not also review the Reports to assess shortcomings noticed in internal audit and action taken notes thereon. Thus the Internal audit was not effective as an important control element.

In the ARCPSE meeting, WBREDC assured (October 2007) to strengthen the internal control mechanism.

Conclusion

The executing agencies namely, WBREDC, WBSEB and WBREDA failed to achieve the target of electrifying all villages by March 2007. Against the 7,409 inhabited unelectrified *mouzas* as on 31 March 2002, 3,934 were

electrified till March 2007. Schemes were taken up without strategic plan and prioritisation of projects. Many schemes were yet to be completed despite availability of funds. Similarly, the pace of implementation of the objective of REP for providing electricity to all rural households by March 2012 was lagging behind. Further, against the estimated potential for energisation of 6.50 lakh pump sets, only 18 *per cent* was achieved. The reasons for inept implementation of RE works was attributable to formulation of schemes without planning or surveys, fixing of unrealistic targets, delays in placement of erection orders, non-availability of materials, lack of co-ordination among the implementing agencies and ZPs, absence of monitoring, poor performance of the contractors, reluctance of consumers to avail service connections etc. In addition, neither the quality of power supplied nor reliability was maintained. Moreover, failure to draw up the BPL list had left out the deprived and downtrodden sections of society from the benefit of the electrification scheme.

Recommendations

It is recommended that the Government and implementing agencies may –

- **revamp planning mechanism to ensure execution of the balance schemes expeditiously;**
- **strengthen the co-ordination among the agencies and local bodies to iron out impediments in implementation;**
- **ensure close monitoring of the schemes under execution;**
- **improve the quality and reliability of power supplied;**
- **involve the local bodies in persuading rural households to opt for connections; and**
- **prepare a comprehensive list of BPL consumers.**

The matter was reported to the Government (August 2007); their reply had not been received (September 2007).

WEST BENGAL SMALL INDUSTRIES DEVELOPMENT CORPORATION LIMITED

2.3 DEVELOPMENT AND OPERATION OF INDUSTRIAL/ COMMERCIAL ESTATES

Highlights

The Infrastructure Division of West Bengal Small Industries Development Corporation Limited (Company) had 34 operational estates and two non operational estates as on 31 March 2007. Besides, the works for development of three estates were under progress. The Infrastructure Division had incurred aggregate losses of Rs 12.83 crore during 2002-07. The Company had not chalked out a Master Plan for development of infrastructure. Consequently, less than one *per cent* of the State's registered small scale industries had been benefited by the Company.

(Paragraphs 2.3.1, 2.3.3 & 2.3.10)

Integrated Infrastructure Development Scheme launched (March 1994) by GOI was not implemented even after lapse of 13 years due to Management's inertia to identify the projects and lack of follow up.

(Paragraph 2.3.18)

The Company did not implement three projects and delayed the fourth project due to its failure to follow-up their proposals with the GOI. Moreover, the Company had not developed 13.70 hectares of land even after 17 to 27 years since its acquisition.

(Paragraph 2.3.11)

Twelve out of 25 Industrial Estates and five out of eight Commercial Estates incurred losses in all five years due to their small size, low occupancy, unsuitable locations, lack of infrastructure, poor communication, etc.

(Paragraph 2.3.26)

The Company had not resumed the allotments of 79 enterprises that remained non-functional since inception or for long. Further, it failed to realise/ recover land premium of Rs 7.04 crore due to defective pricing and absence of a land premium policy.

(Paragraph 2.3.23, 2.3.24 & 2.3.28)

The Company had failed to realise dues of Rs 6.21 crore outstanding for more than three years. Moreover, it also failed to claim municipal taxes and maintenance charges of Rs 3.24 crore from the allottees.

(Paragraphs 2.3.29 & 2.3.30)

Introduction

2.3.1 West Bengal Small Industries Development Corporation Limited (Company), incorporated (March 1961) as a wholly owned Government company, is the State agency entrusted with the responsibility of creating and providing infrastructure to promote growth of small scale industries (SSIs) in the State of West Bengal. To this end, the Company is to develop and operate industrial and commercial estates (IEs /CEs) by acquiring land for these estates; developing infrastructure like roads, water supply, street lighting *etc.* and constructing factory sheds, commercial /administrative buildings thereon; leasing out the sheds and commercial spaces on short and long-term leases against lease rent or premium; as well as maintaining these estates.

As of 31 March 2007, the Company had 34[1] operational estates in 14 out of 19 districts and two[2] non-operational estates as on 31 March 2007. Besides, the works for development of three[3] estates were under progress since August 1999.

2.3.2 The management of the Company is vested in a Board of Directors (BoD) consisting of 12 members including the Chairman and the Managing Director (MD). The MD is the Chief Executive, who is assisted by an Executive Director and a Chief Accounts Officer. The development and operation of estates is undertaken by the Infrastructure Division (ID), headed by an Executive Engineer (IE and CE construction). The Estate Manager oversees the operation of the estates.

2.3.3 The ID had incurred losses aggregating Rs 13.62 crore during 2002-06, while it earned profit of Rs 78.76 lakh in 2006-07 due to taking credit of Rs 1.20 crore as fees from a promoter for the right to develop the Company's land at Saltlake under joint venture. In view of the Company's mounting losses, the Government appointed (2006-07) Price Water house Coopers (PWC) as consultant, to prepare a report for restructuring the Company. PWC submitted its report in March 2007.

2.3.4 A review on the workings of the Company was included in the Report of the Comptroller and Auditor General of India for the year ended 31 March 2001 (Commercial), West Bengal. The Committee of Public Undertakings had not selected the review for discussion.

Scope of Audit

2.3.5 The present performance review was conducted between March and May 2007 to assess the role of the Company in the development and maintenance of IEs/ CEs during 2002-07. The audit findings are based on test

[1] 26 industrial estates and eight commercial estates
[2] Bakreswar, Purulia
[3] Berhampur, Santoshpur and Garia CE

check of records at Company's Headquarters' at Kolkata, twelve[4] IEs and three[5] CEs, selected on the basis of their total area and occupancy position.

Audit Objectives

2.3.6 The performance audit was undertaken to assess whether -

- the Company had chalked out plans to fulfil the demand of infrastructure from SSI units throughout the State by developing new IEs and CEs at desirable locations;
- the funding requirements were realistically assessed with means for providing the same clearly identified and available funds were used effectively, economically and efficiently;
- the Company had successfully executed and monitored the construction and maintenance of IEs/ CEs;
- an effective policy was in place to allot plots, sheds and built-up spaces developed to eligible SSI enterprises keeping in view the Government policies/ directives ;
- the Company had put in place a sound system of determining the lease premium, rent and service charges keeping in view the prevailing market rates and cost of delivery;
- the system of recovery of dues from lessees/ allottees towards premium, rent and service charges and action taken in case of default was effective;
- an internal control mechanism was in place and was operated efficiently; and
- the performance of IEs and CEs were periodically evaluated to assess their role in the development of SSI units.

Audit Criteria

2.3.7 The following audit criteria were adopted for assessing the performance of IEs and CEs :

- objectives of creating the estates;
- SSI policy of the Government, agenda and minutes of the meetings of the BoD;
- targets fixed for development of IEs and CEs;

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[4] Asokenagar, Baltikuri, Bauria, Dabgram, Durgapur, Durgapur RIP, Kalyani-I &II, Purulia, Saktigarh, Santoshpur and Siliguri

[5] Behala ,Garia and Durgapur Commercial Complex

- requirement of land/ sheds by SSI enterprises;
- provisions in the detailed project reports of the estates; and
- provisions in the Budgets for capital and revenue expenditure.

Audit methodology

2.3.8 Audit adopted a mix of the following methodologies for achieving the audit objectives keeping in view the audit criteria :

- study of SSI policy of the Government, project reports, physical and financial progress reports and allotment registers;
- examination of land records, layout plans of estates, estimates, tenders, agreements and measurement books for execution of civil and electrical works;
- scrutiny of plot registers, restoration and transfer of plots as well as monthly performance reports/ returns;
- examination of fixed assets' register and debtors' ledger; and
- interaction with the Management and issue of audit queries.

Audit Findings

2.3.9 The audit findings were reported (August 2007) to the Government/ Management and discussed (27 August 2007) at the meeting of the Audit Review Committee for Public Sector Enterprises (ARCPSE), where the Government was represented by the Special Secretary, Department of Micro & Small Scale Enterprises and Textiles, Government of West Bengal and the Management was represented by the Managing Director of the Company. The review was finalised after considering the views of the Government/ Management.

The audit findings are discussed in succeeding paragraphs.

Planning

2.3.10 The planning process involves the chalking out plans for the development of existing and new estates, identifying locations for new estates as well as developing infrastructure thereon and upgrading the facilities for improvement of existing estates. The selection of locations for estates in an area should be preceded by a comprehensive survey to assess the potential of the area, availability of infrastructure, suitability of the selected land for development of the estate economically and demand from the prospective entrepreneurs. Further, estates should be developed on vacant land, free from encumbrances and with clear marketable title, to obviate the possibility of delay in development.

Out of 34 estates, 16 estates (47 *per cent*) were in Kolkata, indicating the concentration of these estates in the State Capital. While accepting the fact the Management stated (August 2007) in the ARCPSE meeting that there was absence of infrastructural facilities to attract the entrepreneurs and a long term plan had since been drawn up (September 2006) for developing industrial estates and commercial complexes in every district with special emphasis on backward districts. It was, however, noticed that the projection in long term plan envisaged developing IEs and CEs in 14 out of 19 districts.

No long term and short term strategic Plans to develop and operate IEs and CEs was formulated.

Even after its existence of more than four decades, the Company did not formulate any long term and short term strategic plans to develop and operate IEs and CEs efficiently and effectively. The Management, in deviation of the direction (May 2002) of the BoD, did not prepare the Master Plan for developing SSIs in all the districts and major sub-divisional Headquarters. Thus, the Company took up the works for development of IEs/CEs without any survey for prioritisation and comprehensive planning.

The Company prepared (September 2006) a five-year plan (2006-11) for creating 22 new IEs, developing seven existing IEs/ CEs and upgrading existing IEs at an aggregated cost of Rs 86.66 crore, to be met from internal sources/State Government assistance (Rs 61.92 crore) and GOI's assistance (Rs 24.74 crore). The plan submitted (March 2007) by the Company to the State Government has not been approved, so far (September 2007).

The following deficiencies were noticed in the five-year plan :

Planning for development of IEs in backward districts was inadequate.

- In its report on restructuring of the Company, Price Waterhouse Coopers Limited (PWC) had recommended (March 2007) development of estates in backward districts and exploring the possibility of selling off the existing commercial estates to urban local bodies. The plan, however, proposed to develop only 10 IEs in six backward districts out of 22 estates proposed to be developed in the next five years.

Less than one *per cent* of SSI units set-up their enterprises on the Company's estates.

- PWC had also observed (March 2007) that a prime consideration for the location of estates was the availability of land with the Government. The Company did not also create adequate infrastructure facilities as mentioned in paragraphs 2.3.12 to 2.3.17 *infra*. As a result, out of 3.36 lakh[6] registered SSI enterprises in the State, only about 2,500[7] *i.e.* less than one *per cent*, had set up their enterprises on the Company's estates, since inception to March 2007. This indicated that the Company's role in development of infrastructure for SSIs was marginal.

- The plan did not indicate the time schedule for acquisition and development of land, construction of IEs/CEs and allotment of plots/ sheds, etc to the entrepreneurs.

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[6] Annual Report of the Department of Micro & Small Scale Enterprises and Textiles–2006-07
[7] Annual Administrative Report : 2005-06, Department of Cottage & Small Scale Industries

Planning for developing IEs/CEs was devised without ensuring availability of land.

- The development of the IEs/ CEs largely depends on acquisition of land. Out of 22 IEs/ CEs to be developed during 2006-11, requisite land had not been identified in respect of six[8] estates, while land for two[9] estates was under litigation/ encroachments. Thus, the planning for developing IEs/ CEs without ensuring the availability of encumbrance-free land was deficient.

- Demand portfolio of the entrepreneurs for IEs/ CEs was not evaluated before planning for development.

Funding arrangement for constructing IEs/CEs was not tied up.

- The Company received (2002-07) Rs 1.07 crore by way of share capital and Rs 9.63 crore by way of revenue grant[10] from the State Government. Further, the Company was incurring losses and could not generate funds. Yet, it did not have any constructive plans for funding these projects.

- The Company planned (September 2006) to add another floor each at Behala and Silpa Bhawan CEs by March 2007 at an aggregated cost of rupees four crore. The drawings and designs for the project had not been finalised as yet (September 2007). Further, the load-bearing capacity of the existing foundations had also not been ascertained (September 2007). Thus, the schedule had already fallen behind the target date for completion.

- Though the Company was in possession of 7.15 ha (cost : Rs 6.34 lakh) of land at Bakreswar since October 1990/ April 1991 and 3.77 ha of land (Rs 9.59 lakh[11]) at Asansol and Durgapur since August 2002/ June 2004, it failed to assess the demand of the entrepreneurs for setting up industrial units though there was enough demand in the areas. Ultimately, it planned (September 2007) to develop these IEs at a cost of Rs 4.50 crore only in 2010-11, indicating lack of coordination between the planning for acquisition of the land and the development activities.

- The Company received (December 1994) 698 sq. mtr. of land (cost : Rs 1.05 lakh) at Salt Lake from the State Government for construction of an Electronic Tower for electronics/ computer related industries at a cost of Rupees five crore, to be funded out of allotment proceeds from prospective occupants. Thereafter, the Company did not take any action for creating the Electronic Tower. After lapse of nearly 13 years, the Company decided (January 2007) to implement this project through a developer, H.R.Global Finance Limited. The construction had not yet been taken up (September 2007).

While accepting the fact, the Management stated (September 2007) that the plan was being regularly pursued and all activities were chalked out and

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[8] Burdwan, Malda, Ranaghat, Buniyaadpur, Balurghat, Sagardighi.
[9] DumDum Cantonment and Mukundapur.
[10] For the purpose of repair and renovation of 18 IEs
[11] Asansol – Rs 9.06 lakh; Durgapur – Rs 53,429

monitored along that line. The reply is, however, silent as to why no remedial action had been taken to obviate the deficiencies in the long term planning which would ultimately hamper the implementation schedule.

Thus for development and operation of IEs/CEs no long/ short term strategic plans were formulated resulting in inadequate development of IEs in backward districts, less than one per cent of SSI units setting up their enterprises in the Company's estates and poor funding arrangement for construction of estates.

Infrastructure Development

Acquisition and development of land

2.3.11 The Company had not assessed the estate-wise requirement of land. No annual target was also fixed for acquisition and development of land for developing IEs/ CEs. Thus, the entire acquisition and development activity was carried out on *ad hoc* basis. The Company did not also maintain the database in regard to estate-wise and year-wise acquisition and development of land and cost incurred. Consequently, the age-wise analysis of land acquired and developed could not be reviewed.

The Company had acquired **(**April 1974 - March 2007) 153.07 hectares (cost : Rs 13.19 crore) of land from the Government agencies under the Land Acquisition Act, 1894 as well as from the Government at nominal value. As of 31 March 2007, the Company had developed 126.29 ha of land in 34 estates at a cost of Rs 31.01 crore. The development of three IE/ CEs at Berhampur, Santoshpur and Garia over 13.08 ha land was under progress (March 2007) even after incurring an expenditure of Rs 3.73 crore. The developmental work for the balance 13.70 ha at Bakreswar and Purulia was not taken up (September 2007) even after 17 to 27 years since acquisition.

The implementation of some of these projects is discussed below:

Garment Complex at Santoshpur

Garment Complex developed at a cost of Rs1.26 crore failed to evoke response from the entrepreneurs.

2.3.12 Mention was made in Paragraph 2C.5.1.2 of the Audit Report (Commercial) 2000-01, West Bengal that the Company had acquired (December 1998) 8.48 ha of land (cost : Rs 75 lakh) at Santoshpur, South 24-Parganas to set-up a modern integrated garment IE. The Company completed (March 2007) part of the infrastructure work through a contractor at an expenditure of Rs 84.99 lakh. Till June 2006, consultancy charges of Rs 12.25 lakh were also paid to Ghezri Eastern Limited for monitoring the implementation of the project.

The Company funded (March 2000) this IE with a loan of Rs 1.23 crore taken from West Bengal Infrastructure Development Finance Corporation Limited, bearing interest at 16 *per cent per annum*. Till March 2007, the Company had neither paid interest nor repaid loan aggregating Rs 4.31[12] crore.

[12] Principal – Rs 1.23 crore, interest – Rs 3.08 crore

It was noticed that -

- The Company transferred (July 1999) 1.98 ha of land to West Bengal Minorities Development and Finance Corporation (WBMDFC) for plotting and transfer of the land to minority community-owned enterprises as well as setting up a training centre. Against land premium of Rs 1.09 crore, the Company received (July 1999) only Rs 11.80 lakh from WBMFDC. Yet, the Company developed (September 2005) a training centre building at an expenditure of Rs 14 lakh, without obtaining further amount from WBMFDC. WBMDFC proposed (July 2006) to the Company to run the training centre as well as sell/ lease out the remaining land as small plots to the entrepreneurs from the minority community. The Company agreed (November 2006) to the proposal without ensuring that WBMDFC would meet the operating cost of the proposed training centre. But no training had been imparted by the Company to the garment manufacturers, so far (September 2007).

- The Company's advertisement (October 2005) inviting applications for allotment of land received a poor response. As a result, only 11 of 45 allotable plots measuring (0.27 ha) were allotted (February 2007) on long-term lease to three enterprises against land premium of Rs 33.86 lakh, due to absence of infrastructure facilities and locational advantages.

The Company observed (December 2005) that not only was the response very poor and discouraging, there was hardly any scope of putting the land to effective use and recovering the cost of establishment of the estate.

Thus, due to absence of infrastructure facilities and locational advantages, the Company could not recover Rs 1.26[13]crore incurred towards cost of land and development for this estate.

The Management stated (September 2007) in the ARCPSE meeting that action has since been taken to allot land to 44 enterprises in September 2007. Further developments were awaited.

Non- completion of Garia CE

2.3.13 The Information and Cultural Affairs Department of the State Government purchased (March 1997) 2,275 sq. mtr. of land from the Official Liquidator of Naktala Urban Credit-cum-Consumers Co-operative Stores Ltd (NUCCCSL) for Rs 7.09 lakh and handed over (May 1999) the possession to the Company for construction of a six storeyed commercial estate. In lieu of the land, the Company was to hand over to the Department a floor of the CE after constructing an auditorium with a stage. The balance five floors would be retained by the Company for letting out. But, the Company had not got the land registered in its name so far (September 2007).

[13] Total expenditure of Rs 1.60 crore towards cost of land, development cost, interest on loan etc. less land premium recovered of Rs 33.86 lakh

Meanwhile, the Consultant Engineering Services, appointed to draw up the design and estimate of the project, reported (December 2000) that the site was not viable for construction of a commercial building with an auditorium. Instead, it was suitable for constructing a residential complex.

Rs 3.75 crore were invested without receiving clear title to the land.

The Company, without examining the suitability of the site, issued (October 2004) an order to Kaizer Construction Co. Limited (Contractor), for construction of a CE on the land at a cost of Rs 4.32 crore by March 2006. But, the Contractor could not complete the work because a licensee[14] of the erstwhile NUCCCSL filed (December 2004) a suit against the Company and the plot remained under litigation.

The Management, while accepting the facts, attributed (May 2007) the delays in completion to delays in sanction of plans by the KMC and the Fire Services Department, onset of monsoon and court cases and further stated (September 2007) that it was trying hard to vacate the injunction as early as possible and within a few months it would be able to go for allotment. The reply is not acceptable as the Company took up construction on the land without obtaining clear title which led to delays in sanction of plans and disposal of court cases.

Thus, due to the Company's decision to take up development works without clear title and proper planning, it failed to reap a return on its investment of Rs 3.75 crore on construction of the CE.

Failure to develop Bakreswar IE

The IE was not developed even after lapse of 16 years of acquisition of land.

2.3.14 The Company acquired (October 1990/ April 1991) 7.15 ha of land (cost : Rs 6.34 lakh) at Dubrajpur, Birbhum from the Land Acquisition Collector to establish an IE near Bakreswar Thermal Power Station (BTPS). Even after 16 years of acquisition, neither the land had been demarcated nor boundary wall erected (March 2007). This facilitated excavation of *morrum* and earth from the land by the local people. Despite the Company lodging (May 2003) a complaint, the local police expressed their inability to locate the said soil as land was not demarcated. The Company had not assessed the extent of earth filling required to make up for the excavation. Moreover, the land continued to be farmed by the local inhabitants. But, the Company did not get any consideration for such use of land. Ultimately, the Company planned (September 2006) to develop the land through IID scheme during 2010-11 at a projected cost of Rs 2.50 crore.

The Management stated (September 2007) that action had since been taken for removal of encroachments and advertisements issued to assess the demand from industries. The reply thus indicates the inaction on the part of the Management for the past 16 years to develop the IEs in a time bound manner.

Thus, failure of the Management to protect the land from encroachment and developing land after lapse of 16 years, resulted in frustrating the development of SSI enterprises in the backward districts. Further, the excavation of earth

[14] Shri Asim Kumar Mitra

and *morrum* would lead to additional land filling cost that may render the project unviable.

Loss on lease of land free of cost at Purulia IE

2.3.15 Mention was made in Paragraph 2C.5.1.4 of the Audit Report (Commercial) 2000-01, West Bengal that the Company's failure to develop infrastructure and to vacate encumbrances on the land (6.55 ha) frustrated the development of SSI enterprises in a backward district.

The Company set up (May 1983) a subsidiary, Limelight Industries (P) Limited (LIPL) and leased out (May 1982) 0.93 ha of land to LIPL for 21 years at Purulia IE. Subsequently, LIPL obtained (April 1985) loan of Rs 11.95 lakh from the West Bengal Financial Corporation (WBFC), secured against its' assets. Due to LIPL's failure to repay its dues, WBFC took over (March 1989) the possession of LIPL's assets and ultimately, without the consent of the Company, it transferred (June 2002) the taken over assets to Gloria Vyapar Private Ltd. (GVPL) for Rs 8.35 lakh, including the land on lease for 99 years. After adjusting Rs 8.35 lakh paid by GVPL, WBFC agreed (June 2002) to write off the balance dues of Rs 19.73 lakh, only if the Company leased the land to GVPL for 99-years, free of cost, since the Company was the promoter of LIPL.

The Company, agreed to the requests of WBFC and GVPL and leased (April 2004) the land to GVPL and its' two associates for 99 years, leading to the Company forgoing one time lease premium of Rs 11.04 lakh on the land.

The Company planned (September 2006) to develop the IE on the remaining land (5.62 ha) in 2007-08, at a cost of Rs 3.20 crore under the IID scheme. Even after lapse of one year, the Company did not initiate any action in this regard (September 2007). The Management stated (September 2007) that possibilities were being vigorously explored to develop the estate in the vacant land. The reply is, however, silent why no action was initiated earlier to develop the IE in a specific time frame.

Thus, due to lack of planning, the development of an IE did not materialise even after 25 years

Inadequate infrastructure at Bauria and Ashoknagar IEs

2.3.16 The Company had acquired (1979-80) 11.17 ha of land at Bauria, Howrah in a densely populated area connected by only a narrow road allowing only one vehicle at a time and passing through the local market place, connecting the plot to the highway. The IE was constructed at a cost of Rs 31.60 lakh. But, even after 27 years of acquisition of land, the Company had not constructed a boundary wall. Consequently, not only 1,490.43 sq. metre was encroached, but, also local people had removed earth by digging ditches at various stretches along the land.

The development of Bauria IE was lagging due to lack of infrastructure facilities and absence of demand.

The Company allotted (December 1985 - December 2006) 3.68 ha (22 plots) to 21 SSI units of which only 11 units were functional as of March 2007. While six units were non-functional, the Company had evicted (September 1993) four units for non-construction of the factory buildings within the stipulated period. The reasons for non-construction and non-operation were lack of infrastructure facilities, encroachments on the land, obstruction by the local people and theft of property. In the absence of demand, the remaining allotable area i.e. 4.89 ha (26 plots) were not allotted (September 2007). The Management stated (September 2007) that infrastructure work had since been completed and steps were being taken for removal of encroachments. The reply is, however, silent on the widening of the approach road.

2.3.17 Similarly, the Company had acquired (1987-88) 8,030 sq. mtr. of vested land at Ashokenagar, North 24 Parganas, about three and eleven kilometres away from the nearest railway station and National Highway respectively. But, the land was located in a primarily residential area, and connected by a narrow and crowded road. Moreover, the Company had not erected a boundary wall. The Company constructed the IE at a cost of Rs 7.85 lakh.

Ashokenagar IE could not be utilised adequately due to poor response from the prospective entrepreneurs.

The Company allotted (June 1989 - August 2000) 17 (3,872 sq. mtr.) out of 25 plots (5,467 sq. mtr.), of which only six enterprises took possession (February 1990 - September 1994). Of these, two units were closed (January 1991/ September 1994), one taken over (February 1990) by West Bengal Financial Corporation for non-payment of dues while one was non-functional since inception (January 1991). Moreover, outsiders could enter the estate and there was no security. As a result, 16 plots (3,749 sq. mtr.) remained unutilised. The Management stated (September 2007) that allotment would be made in near future after sorting out the problem including pollution.

Thus, the Company's failure to ensure unhindered vehicular access, land free from encroachments, adequate security for the allottees *etc* led to poor response from prospective entrepreneurs to set up SSIs on these estates. This resulted in loss of potential revenue of Rs 1.81[15] crore by way of lease premium realisable on the unallotted land.

Scheme for Integrated Infrastructure Development

2.3.18 With the objective of promoting and strengthening infrastructure for SSI enterprises, the GOI announced (March 1994) the Scheme of Integrated Infrastructure Development (IID) for SSI units in rural and backward areas by creating IEs. According to the Scheme, detailed project reports were to be submitted to Small Industries Development Bank of India (SIDBI) for evaluation and onward submission to GOI.

[15] Bauria – Rs 1.54 crore; Ashokenagar – Rs 26.55 lakh

Integrated Infrastructure Development Scheme was not implemented even after lapse of 13 years of its launching of GOI due to management's inertia to identify the projects and lack of follow-up.

After a lapse of seven years, the Company submitted (August 2001) four[16] feasibility reports to SIDBI, for development/ upgradation of infrastructure at Tangra IE - I (Rs 2.91 crore), Tangra IE - II (Rs 4.97 crore), Behala IE (Rs 4.97 crore) and Dabgram IE (Rs 4.83 crore) by January- February 2003. The Company also proposed to draw term loans aggregating Rs 10.60 crore from SIDBI, for which it also paid (October 2001) processing fees of Rs 6.35 lakh to SIDBI. SIDBI, however, neither evaluated the proposal nor sanctioned the loan since the Company owed SIDBI overdue interest of Rs 20.83 lakh which was settled (November 2003) for Rs 15.67 lakh. The Company, however, did not seek return of processing fees.

Ultimately, after expiry of further two years, the Company approached (January 2006) GOI directly, for approval of the four feasibility reports at an enhanced cost of Rs 18.07 crore, to be funded out of GOI grant (Rs 5.76 crore) and internal resources (Rs 12.31 crore). But no revised time schedule for completion of the projects was communicated to GOI.

GOI approved (May 2006) the project for Tangra - II IE at a revised cost of Rs 2.01 crore and sanctioned Rs 80.57 lakh. Against this, the Company received (November 2006) Rs 30 lakh. The development works were in progress (September 2007).

In respect of other three proposals, the Company had not, however, followed up with GOI for getting the approval indicating its' casual approach.

Again, the Company prepared[17] (March/ May 2006) two more feasibility reports for Santoshpur and Berhampore IEs at a projected cost of Rs 2.15 crore and Rs 2.69 crore respectively and submitted (April 2006) to SIDBI. GOI approved (March 2007) the projects and sanctioned grants for Rs 73.64 lakh and Rs 85 lakh respectively for implementation.

The Management stated (September 2007) that more proposals would be sent to GOI for funding and it had been able to remove the initial obstacles to get the projects approved and to draw funds. The reply substantiate the audit point that no such action was taken earlier.

Thus, even after lapse of 13 years of the announcement of the scheme, the Company's inertia to follow up its proposals led to non-implementation of three projects and abnormal delays in taking up one project. Consequently, the objective of the scheme for promoting and strengthening infrastructure for SSI enterprises remained unachieved.

Joint ventures (JVs)

Development of IEs through joint ventures did not materialise due to deficient planning.

2.3.19 With a view to overcome its' financial constraints, the Company decided (February/ May 2002) to develop IEs through JVs. The Company, without developing a work plan for developing such JVs, invited applications from prospective partners. Out of five applicants, the Company found

[16] Prepared by WEBCON at an expenditure of Rs 11.13 lakh
[17] Through WEBCON at an expenditure of Rs 3.56 lakh

(November/ December 2003) Poddar Projects Limited and Shrachi Securities Limited technically and financially capable of setting up JVs with a total share capital of Rs 30 lakh[18] each. Meanwhile, the State Government formulated (August 2003) guidelines for such JVs but the selected parties did not, however, respond thereafter. The Company neither ascertained the reasons nor pursued with the parties. Subsequently, the Company received (December 2005) six proposals from private companies for development of IEs on the Company's land as well as land to be arranged by the private companies. Again, these six proposals did not ultimately materialise for which no reason was on record.

In view of these unsuccessful attempts, the Company again invited (December 2006) fresh proposals and signed (January – April 2007) ten MOUs for development of 10 IEs either as JV or assisted companies. Till May 2007, four JV Companies were incorporated with shares to be held by JV partners (89 *per cent*) and the Company (11 *per cent*). The aggregate proposed investment of the Company in these JVs was Rs 42 lakh. As per MOUs, JV Companies were to develop the IEs at their own cost within 18 months from the date of handing of the land by the Company as well as to market the plots to entrepreneurs. JVs were to pay fees specified in the MOUs to the Company for the purpose.

Till 31 March 2007, the Company received Rs 1.46 crore as fees from two[19] private JV partners. No further developments in creating IEs were noticed (September 2007). Thus, even after lapse of five years the development of IEs through JVs did not achieve required momentum due to absence of proper planning, hence the envisaged benefits of JVs to meet the requirements of funds and better management of IEs through JVs could not be achieved.

Allotment and Pricing

2.3.20 The Company allots plots, sheds, shops and room space to prospective SSI enterprises after evaluating their applications and subject to availability at the desired locations. The BoD decided (July 1997) that while 75 *per cent* of the plots/ sheds available for allotment would be earmarked for new SSI enterprises, the balance 25 *per cent* would be allotted to existing enterprises. Further, priority would be accorded to units **(a)** with good employment potential, **(b)** utilising modern techniques and **(c)** promoted by technically trained/ women/ physically handicapped entrepreneurs. Allottees would be selected after assessing their seriousness of intent, capability of setting up an industry and present state of preparedness.

Allotment Registers were not maintained.

The Company had allotted (2002-07) 284 plots, 100 sheds, 72 shops and 25 room spaces. The Company, however, did not maintain the details of applications received and rejected/ not considered. Moreover, in the absence of detailed allotment registers, it could not be verified whether the criteria for selection were followed.

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[18] Company – 49.5 *per cent*, JV partner – 49.5 *per cent*, general public – one *per cent*

[19] Sidha Real Estate Development (P) Limited – Rs 1.16 crore, H.R.Global Finance Limited – Rs 30 lakh

Plots were not allotted after properly assessing the credentials of the enterprises.

2.3.21 It was, however, noticed (July 2007) that the Company had not properly assessed the enterprises before selection. The Company made 109 long term allotments at Ashokenagar (June 1989 to August 2000) and Kalyani Phase-I & II (April 2001 to February 2007) to new SSI enterprises. Due to non-payment of land premia, the Company subsequently cancelled (June 1989 – November 2006), eight allotments at Ashokenagar, 21 at Kalyani Phase-I and 24 at Kalyani Phase-II, indicating these units were selected without assessing their technical capability and preparedness. Moreover, at Taratala IE, the Management, on the approval of the BOD, had allotted (October 2002) 3,128 sq. mtr. of land on long- term lease to a school *viz.* Birla Vidya Vihar Trust.

This indicated that the allotment process was neither transparent nor to the benefit of SSI enterprises.

Short recovery of land premium

Long term lease agreements did not provide for increase in lease rent every three years on the pattern of short term leases.

2.3.22 The Company did not formulate a policy to determine the rates of rent/ lease premium at different Industrial Estates/ Commercial Estates for short term or long term leases. The Company decided (November 2004) to enhance the short term lease rent every three years at the rate of 10 *per cent*. But, a corresponding provision was not included in the long term contracts. As a result, in case of long term contracts, there was no possibility of increasing the rent every three years so that the rise in market rates and revenue expenditure incurred could be recovered.

2.3.23 It was observed that due to absence of a consistent policy, in the following cases, IEs were not utilised for purposes for which allotted or transferred to other parties by the original allottees without the approval of the Company leading to non recovery of Rs 19.80 lakh.

- Even though the Company was aware (April 2005) of the prevailing market rates of land around the adjoining Durgapur RIP and Durgapur IEs, ranging from Rs 1,196 to Rs 2,242 per sq. mtr., it fixed (December 2005) the lease premium for 30 years long-term lease of land at a substantially lower rate of Rs 373 per sq. mtr. for Durgapur IE on the ground that it would minimise the burden of the entrepreneurs. But, during the same period, based on the prevailing market rate at Baltikuri, the Company had fixed (December 2005) the lease premium at Rs 2,242 per sq. mtr. for that IE.

- At Durgapur RIP IE, Pradip Enterprise (original allottee - September 1972) had without prior approval of the Company transferred the plot (590 sq. mtr.) to another enterprise *viz.* Kali Engineering Works (KEW). Subsequently, the Company re-allotted (October 1996) the plot to KEW on 99 years lease on the same terms and conditions of the original agreement without levying one-time lease premium of Rs 1.06 lakh[20].

[20] 0.06ha at the rate of Rs 17.67 lakh per ha

- Similarly, 10 plots of 4,188 sq. mtr., allotted (September 1972 – November 1989) to seven enterprises, had been sub-let to five enterprises without the Company's approval. Moreover, 11 plots of 6,263 sq. mtr., allotted (October 1972 – February 1990) to six enterprises, had been used for residential purposes and a temple, in contravention of the terms of the lease. But, the Company had not repossessed these 21 plots for re-allotment, thereby forgoing lease premium of Rs 18.74 lakh.

Thus due to absence of a consistent policy, IEs were not utilised for purposes for which it were allotted and in some cases the original allottees transferred plots to other parties without the approval of the Company leading to non-recovery of Rs 19.80 lakh.

Non-recovery of cost due to under fixation of land premium

2.3.24 Mention was made in Paragraph 2C.5.1.1 of the Audit Report (Commercial) 2000-01, West Bengal that the Company had acquired (January/ June 1996) 7.02 ha of land[21] at Pagladanga, Taratala and Tangra at a cost of Rs 11.07 crore, funded out of loan (Rs 9.55 crore) from the State Government at interest rate of 11 *per cent per annum* and internal sources (Rs 1.52 crore). The interest liability on the above loan amounted to Rs 11.48 crore till March 2007.

Inordinate delay in construction of three IEs led to non-recovery of interest of Rs 6.84 crore.

The Company had developed (December 1998) 4.51 ha at Pagladanga into the Udayan IE at a cost of Rs 1.13 crore. But, it failed to obtain adequate response from SSI enterprises since mutation was not done in the Company's name and therefore, construction plans of SSI enterprises were not sanctioned (September 2007). Subsequently, the Company developed (August 2001) Taratala and Tangra-II IEs at a cost of Rs 79.99 lakh towards construction of internal roads, drains etc.

The Company allotted (2002-06) 94 out of 95 plots at Udayan, all three (2003 - 06) at Taratala and 36 (2004-07) out of 38 at Tangra-II against land premium of Rs 16.56 crore. While determining land premium, the Company had, however, considered interest on Government loan for only three years, whereas these estates were actually developed over more than a decade with higher interest burden. Hence, the Company could not recover Rs 6.84 crore.

The Management stated (September 2007) that the Government had been approached for waiver of interest on this loan. The Government's approval was awaited (September 2007).

Failure to renew lease agreements

2.3.25 As per decision (December 1998) of the BoD, enterprises whose lease deeds had already expired, were to be asked by the Company to get their leases renewed within 30 days from the date of receipt of intimation from the Company. The Corporate office of the Company did not, however, maintain

[21] belonging to the erstwhile Bengal Potteries Limited

any database in regard to names of the enterprises whose lease deeds had expired. Consequently, the Company was not in a position to ascertain the updated position of renewal of expired leases.

Delay in getting the expired lease deeds renewed resulted in non-recovery of Rs 59.82 lakh from the entrepreneurs.

It was observed that out of eight[22] test-checked estates the Company had not issued the necessary notices to 56 enterprises at four[23] estates for renewal of leases, although their agreements had already expired (July 1983 - February 2007). Consequently, the Company failed to collect rents at the prevailing rates, which were higher than the rates applicable in the expired agreements, by 56 to 108 *per cent*. This led to loss of Rs 59.82 lakh due to recovery of rent at lower rates from these enterprises.

Operation and maintenance of industrial and commercial estates

2.3.26 The Company did not devise any mechanism to assess and monitor the annual working results of each estate. The estate–wise working results for 25[24] IEs and eight CEs in each of the past five years ending 2006-07 (**Annexure – 18**), as worked out in audit, indicated that 12 out of 25 IEs and five out of eight CEs incurred losses in all five years. Only five IEs earned profits in all five years.

Poor performance of IEs/CEs contributed 79 per cent of the total losses of the Company during 2002-06.

During 2002-06, the Company as a whole sustained losses of Rs 17.27 crore. It earned profit of Rs 1.08 crore in 2006-07. The IEs/ CEs contributed 73 to 93 *per cent* of the total losses of the Company during 2002-07 as tabulated below:-

Year	Profit (+)/Losses incurred by the Company (Rupees in crore).	Losses contributed by IEs/CEs. (Rupees in crore).	Percentage of loss of IEs/ CEs to total loss (in *per cent*)
2002-03	3.92	3.63	93
2003-04	5.43	4.06	75
2004-05	3.51	2.72	77
2005-06	4.41	3.21	73
2006-07	(+) 1.08	0.41	-

Source: Annual Accounts and Division-wise operating results as prepared by the Company.

The reasons for recurring losses, as analysed in audit, were attributable to small size of estates, low occupancy due to unsuitable locations, poor communication, lack of infrastructure etc., delays in returning/ closing down unviable estates and poor planning.

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[22] Baltikuri, Bauria, Kalyani-I & II ,Durgapur I E ,Durgapur CE, Shaktigarh and Ashoknagar
[23] Kalyani – I & II IEs, Durgapur IE and Durgapur RIP
[24] Excluding Taratala IE

Loss due to delay in returning Howrah Subway CE

A loss incurring commercial estate was operated injudiciously in deviation of BoD's direction.

2.3.27 The Company obtained (August 1980) the air-conditioned Howrah Subway CE[25] from Kolkata Metropolitan Development Authority (KMDA) at a monthly lease rent of Rs 0.20 lakh for sub-leasing out as commercial spaces to SSI enterprises. Subsequently, in view of the high incidence of operating cost of the CE, the BoD decided (February 1997) to return it to KMDA. Despite the above decision of the BoD, the Company took no initiative to return the CE. Instead, to mitigate the losses, the MD decided (1998) not to bear the expenditure towards electricity charges, common services etc. which would be borne by the Company's sub-lessees. After another four years, the Company discontinued (February 2002) the payment of electricity bills to KMDA, which, in turn, disconnected (April 2002) the supply of power. After lapse of another six months, the Company finally approached (September 2002) KMDA to take back the CE. Ultimately, after protracted correspondence and negotiations, the Company returned (August 2004) the estate against payment (August 2004 – August 2005) of Rs 27 lakh towards license fees in three instalments to KMDA.

Thus, injudicious continuation of the operation of the CE from April 1997 to August 2004, in deviation of the BoD's direction (February 1997), led to further loss of Rs 27 lakh towards license fees paid, besides extra expenditure of Rs 9.60 lakh, as electricity charges and municipal tax on behalf of sub-lessees which was never recovered.

Non-resumption of land allotted to non-functioning enterprises

No system was devised to review the utilisation of lease-hold land.

2.3.28 The lease agreements entered into by the Company with entrepreneurs specified that if the premises were not utilised for the intended purpose within a period of three/ twelve months or remained closed for three/ six months consecutively under short term/ long-term leases, the Company had the right to repossess the premises. The Company neither devised a mechanism to periodically review the utilisation of leasehold land as well as the operation of the units nor did it maintain a database of non-functional units.

The Company neither took action to repossess the premises from 79 non-functional units nor recovered dues of Rs 1.23 crore from them.

It was observed that in eight[26] estates, the Company allotted (August 1978 – March 2006) plots and sheds covering an area of 36,438 sq. mtr. to 32 enterprises, which were nonfunctional since inception (August 1978 – March 2006). Similarly, in six[27] estates, 47 enterprises were allotted (July 2001 – March 2006) plots and sheds, covering an area of 68,509 sq. mtr. which were non-functional since July 1981 to March 2007. But, the Company neither served requisite notices to repossess the premises from the defaulting enterprises nor recovered their outstanding dues of Rs 1.23 crore, towards rent, electricity charges, municipal taxes etc. In the absence of a system, the Company failed to ascertain the reasons for non-commencement or closure of these 79 enterprises.

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[25] Measuring 221 sq. mtr. and comprising of 13 stalls, two electrical rooms and a common passage

[26] Baltikuri, Bauria, Kalyani-I & II ,Durgapur I E ,Durgapur CE, Shaktigarh and Ashoknagar

[27] Baltikuri, Kalyani-I & II ,Durgapur I E, Durgapur CE and Shaktigarh

It was further observed that non-commencement or closure by these units was mainly due to distance from the market; lack of access to railway stations/ highways; absence of good communicable roads; allotment without obtaining proper clearance from West Bengal Pollution Control Board; presence of encroachers; inability to construct factory premises on allotted plots due to presence of pre-existing places of worship; lack of security within the estates; and shortage of finance. The Company had not taken measures to rectify these drawbacks.

While accepting the facts, the Management stated (September 2007) that steps were being taken to re-possess the non-functional units and initiate certificate cases to recover outstanding dues.

Billing and recovery of dues

2.3.29 With a view to ensure viability of IEs/ CEs, the Company should promptly recover from the allotees proportionate share of expenses towards electricity, municipal rates, water charges and estate maintenance. The annual demand *vis-à-vis* collection of short-term lease rent and expenses from the alottees of the IEs/ CEs during the last five years ending 31 March 2007 along with the amounts receivable at the end of each year is given in the following table –

(Amount : Rupees in crore)

	Particulars	2002-03	2003-04	2004-05	2005-06	2006-07
A	Opening Balance of Dues	7.13	6.34	6.67	7.10	6.96
B	Demand for the year	1.33	2.77	3.26	2.65	3.18
C	Total Amount to be recovered (Item A+Item B)	8.46	9.11	9.93	9.75	10.14
D	Amount Collected					
	(i) Current Year	0.43	1.83	2.26	1.67	2.18
	(ii) Arrears	1.69	0.61	0.57	1.12	0.84
	(iii) Total	2.12	2.44	2.83	2.79	3.02
E	Closing Balance of Dues	6.34	6.67	7.10	6.96	7.12
F	Percentage of total collection to total recoverable {Item D(iii)/Item C x 100 }	25	27	28	29	30

Source: Information furnished by the Management.

The recovery of dues was inadequate with reference to total dues.

It would be seen from the table that the percentage of total collection to total recoverable represented only 25 to 30 *per cent* during 2002-07, indicating poor recovery of dues by the Company. Moreover, in the following cases, the Company had not claimed Rs 3.24 crore on account of municipal taxes, water charges and maintenance charges paid/ incurred by the Company on their behalf from the enterprises till 31 March 2007 –

The Company failed to recover Rs 1.11 crore from long term leasee towards municipal taxes.

- During 2002-07, the Company paid municipal rates and water charges of Rs 2.65 crore for 22 estates. The long-term lease agreements provided that the lessees would liquidate all existing and future rates and taxes including all municipal taxes imposed by the appropriate authority. But the Infrastructure Division did not even raise bills on long term lessees for recovery of municipal taxes for which no reason was on record. The Company, however, claimed at the rate of 18 *per cent* of rent, Rs 1.54 crore only from short term lessees as their share of municipal tax. This led to non-recovery of Rs 1.11 crore towards municipal taxes from the long term lessees during 2002-07.

Maintenance charges of Rs 2.13 crore were not claimed from the entrepreneurs.

- The BoD decided (November 2004) that the Company would recover at least Rs 2.15 per sq. mtr. of occupied space as maintenance charges from the SSI enterprises till such time the enterprises on each estate formed an Association or Society for day to day maintenance and providing services on the respective estate. It was noticed that, during December 2004 to March 2007, the Company had not claimed maintenance charges of Rs 2.13 crore from the entrepreneurs in six[28] IEs though no association or society was formed by SSI entrepreneurs, but the Company continued to carry out maintenance at its own cost.

- At nine[29] IEs, 48 plots, 95 sheds and seven built-up spaces with an area of 7.43 lakh sq. mtr. (covered – 6.46 lakh sq. mtr. and uncovered - 0.97 lakh sq. mtr.) were not allotted for periods ranging from four to 399 months due to lack of infrastructural facility and response of entrepreneurs. Consequently, the proportionate share of expenditure thereon could not be recovered.

Thus poor recovery of dues by the Company resulted in non-recovery of Rs 3.24 crore on account of municipal taxes, water charges and maintenance charges from the lessees.

2.3.30 The age-wise analysis of receivables as prepared by the Company is given in the table below –

(Amount : Rupees in lakh)

	Period from which due	2002-03	2003-04	2004-05	2005-06	2006-07
	Less than and up to a year	89.39	94.01	100.14	98.20	100.57
	More than a year and up to two years	75.90	79.83	85.03	83.39	85.40
	More than two years and up to three years	95.10	100.02	106.54	104.48	107.00
	More than three years and up to four years	74.18	78.02	83.11	81.50	83.47
	Four years and above	298.87	314.32	334.84	328.35	336.27
	Total	**633.44**	**666.20**	**709.66**	**695.92**	**712.71**

Source: Information furnished by the Management.

It is seen that more than 59 *per cent* of the receivables (Rs 4.20 crore) as of March 2007 were prior to April 2003, which led to blocking of significant working capital of the Company. As analysed by Audit the reasons for this dismal position were as follows-

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[28] Ashokenagar, Baltikuri, Bauria, Durgapur, Kalyani-I and Shaltigarh.
[29] Ashokenagar, Balitikuri, Bauria, Behala, Durgapur, Kalyani-I & II,Saktigarh and Siliguri.

- The position of billings, recoveries and outstanding dues for each estate had not been reconciled with the corresponding figures in the accounts. As a result, there were major variations in the position between the records of the estates and the accounts. Moreover, the Company maintained no records of the aggregate amounts billed but not realisable *vis-à-vis* expenditure incurred.

Recovery of old dues was not prioritised.

- The realisation of old receivables dipped from 24 *per cent* in 2002-03 to 12 *per cent* in 2006-07, thereby indicating that the Company did not prioritise to effect recovery of old dues.

- Although Rs 2.30 crore was receivable from 281 evicted enterprises, the Company initiated (1977-78 to 2003-04) 125 certificate cases for recovery of Rs 1.55 crore. Till 31 March 2007, the Company realised only Rs 8.91 lakh from 39 enterprises (dues : Rs 29.32 lakh).

No action was taken to recover Rs 2.07 crore from non-SSI undertakings.

- As of March 2007, Rs 2.07 crore was due from non-SSI undertakings such as horticultural nursery/ Government establishments on account of lease rent. Yet, the Company had not taken any action under the West Bengal Government Premises Tenancy Regulation Act, 1976 to vacate the premises and allot them to SSI enterprises (September 2007).

- At Kalyani - II IE, Rs 47.32 lakh as of March 2007 was due towards rent and municipal taxes from the erstwhile Sen and Pandit (later the defunct Cycle Corporation of India Limited), a long term lessee, which had become non-functional since 1992. The official liquidator had sold (January 2005) the lease hold rights to Aloka Metal and Manufacturing Company (AMMC) for recovery of dues of United Commercial Bank, a secured creditor. Meanwhile, the Company had initiated (December 2004) legal proceedings against the liquidator. But, the Company had not followed-up the legal proceedings.

The Management stated (September 2007) that steps were being taken to organise camps in estates as well as to initiate certificate cases against the evicted units. However, the recovery of old dues of Rs 4.20 crore, outstanding for more than three years, was remote.

Thus, the recovery mechanism in the Company was deficient resulting in piling up of old dues, with the possibility of their recovery becoming remote with lapse of time.

Internal control

Internal control was deficient and ineffective.

2.3.31 The internal control system is an essential prerequisite for efficient and effective management of an organisation. A review of the internal control systems in the Company brought out the following deficiencies –

- The demand for premises and related infrastructure in the different districts from SSI enterprises was not assessed. Further, the details of applications like applicant’s name, registration number, requirement, purpose, extent, date of rejection/ allotment, reasons for rejection, if applicable etc. were not maintained. This led to a defective appraisal process and allotment of space to enterprises that had either not taken the space or had not commenced operation.

- The fixed assets register of all estates had not been updated and details of land received/ acquired along with location and cost, expenditure on construction of buildings, sheds, roads, electrical equipment etc. was not available. Consequently, the cost of development of each estate to recover the expenditure incurred could not be assessed.

- The Company did not oversee the recovery of old dues which led to accumulation of huge dues at the end of each financial year. No targets were fixed for their timely recovery to bring down the outstanding amount. Although the amounts of billing, recoveries and outstanding dues as per the performance reports and the Company's accounts had significant variations, the Company had not taken steps to reconcile these differences.

- The annual operating results of each estate were not worked out to identify the reasons for recurring losses incurred by the Infrastructure Division.

Internal audit

Internal audit was not commensurate with the operations.

2.3.32 The Company did not have its own internal audit wing. It appointed five firms of Chartered Accountants to annually undertake internal audit at the Head Office as well as different estates for each year. The internal audit carried out annually highlighted the need to ensure that -

- the demands raised by the estates are based on existing, revised and renewed lease/ tenancy agreements as modified from time to time;

- systems be generated to plug revenue leakages;

- estate collections were credited to the parties' accounts after reconciliation at Head Office to reflect correct outstanding and actual receivables;

- age-wise analysis of receivables were periodically prepared and tallied with ledger balances for monitoring and collection control;

- periodic reconciliation of collections as recorded by the estates, incorporated in the accounts and reflected in the collection statements of Infrastructure Division is undertaken to ensure accountability and accuracy of accounting data.

The Management did not take action to remedy the persistent deficiencies pointed out by the internal auditors. The internal audit reports (IARs) were not periodically placed before the BoD for review. The internal audit as an important internal control element was thus missing.

The Management stated (September 2007) that IARs would be submitted to the BoD along with action taken notes.

Conclusion

The Company had neither seriously planned to create new estates to cater to the demand for infrastructure nor to complete/ develop the infrastructure on existing estates. Moreover, the joint venture proposals had not reached fruition despite attempts over the past five years. The location of the estates was based on the availability of Government land instead of feasibility/ market potential and about half the estates were within Kolkata and its suburbs.

Further, the dismal performance of the estates was attributable to their small size, inappropriate location, poor communication and lack of infrastructure. Recovery of land premium had not been correlated with the expenditure incurred on development of estates. There were substantial revenue leakages due to failure to renew agreements, re-allot plots that had been unauthorisedly sub-let, non-billing of municipal rates and maintenance charges etc. Further, realisation of dues had not been monitored leading to accumulation of old dues, doubtful of recovery.

Consequently, even after almost half a century of its existence, the Company had allotted plots, sheds and spaces to less than one *per cent* of the registered SSI enterprises in the State and remained a peripheral player.

Recommendations

The Company needs to –

- **develop a Master Plan to focus on its short-term and long-term goals;**
- **undertake district-wise market surveys and identify appropriate locations for setting up of new estates;**
- **revamp the infrastructure in the existing estates based on SSIs' requirements;**
- **update/ revamp the appraisal mechanism;**
- **ensure regular renewal of agreements at the current terms and conditions as well as take measures to bill and realise dues within reasonable time;**
- **identify the location, area and other details of land owned/ leased by the Company *vis-à-vis* their recording in the fixed assets register;**

- **review the performance of each estate periodically;**
- **review the system of fixation of land premium; reconcile the billing, realisation and dues position for each estate; and**
- **strengthen the mechanism for recovery of old dues.**

The matter was reported to the Government, their reply was awaited (September 2007).