

## CHAPTER IV

### 4 Transaction Audit Observations

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

#### Public Sector Undertakings

#### WEST BENGAL INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

##### 4.1 *Excess expenditure on acquisition of land for a 'small car' project*

**The Company incurred excess expenditure of Rs 2.99 crore towards payment of avoidable interest of Rs 1.44 crore and delayed 'consent awards' of Rs 1.55 crore. Further, it subsidised Tata Motors Limited by Rs 76.11 crore on leasing of 645.67 acres of land at Singur for ninety years.**

With a view to enable Tata Motors Limited (TML) to set up a 'small car factory' at Singur, Hooghly; the State Government authorised (May/ July 2006) West Bengal Industrial Development Corporation Limited (Company) to acquire 1,000 acres of land through the District Magistrate and Land Acquisition Collector, Hooghly (LAC). The Company, at the instance of the Government, engaged (June 2006) ICICI- Winfra (I-WIN) as project management consultant for preparation of land acquisition proposal at a fee of Rs 26.78 lakh.

LAC estimated (August 2006) the total acquisition cost for 1,014.24 acres of land at Rs 138.25 crore including administrative costs (AC) of Rs 12.57 crore and 'Consent award' of Rs 7.72 crore for the entire land under<sup>1</sup> the Land Acquisition Act 1894. The Company placed (July/ September 2006) Rs 140 crore<sup>2</sup> with LAC.

The Company received (October 2006) possession of 997.11 acres of land valuing Rs 133.10 crore from LAC, which was registered (March 2007) in the Company's name. Consequently, LAC refunded (November 2006/ April 2007) the balance amount of Rs 6.90 crore to the Company. The Company also purchased 9.34 acres of land directly from the land owners/ *bargadars* at a cost of Rs 3.19 crore. The Company incurred (July 2006 - July 2007) aggregate

<sup>1</sup> Section 11(2)

<sup>2</sup> Rupees two crore on 28 July 2006 and Rs 138 crore on 11 September 2006

expenditure of Rs 160.60<sup>3</sup>crore for land acquisition, land development, rehabilitation and related expenses.

Out of total 1,006.45 acres of land acquired by the Company, 70.78 acres were waterbodies and land meant for internal roads, sub-stations etc. with balance 935.67 acres available for leasing out. Till July 2007, the Company had leased out 645.67 acres to TML and 190.44 acres to 30 vendors<sup>4</sup> of TML. Due to non-production of agreements and related records, the terms and conditions of leasing land to these vendors could not be examined in audit.

It was noticed (April 2007) that the Company sustained loss of Rs 79.10 crore due to injudicious borrowing, irregular payment of 'Consent Awards' to land owners beyond statutory provisions and subsidising the lease of land to TML, as discussed below.

### ***Drawal of loan in excess of requirement***

As per the statement made (15 March 2007) by the Minister-in-charge, Commerce & Industries department in the state assembly, the Company would incur the entire expenditure on land acquisition out of the loan to be taken from West Bengal Infrastructure Development Finance Corporation Limited on the guarantee of the Government. Further, it would be liable to pay interest and repay principal from the surplus generated through its' own business activities. Against the estimated land cost of Rs 138.25 crore, the Company had drawn (September 2006) loan of Rs 200 crore, on *ad hoc* basis, at interest rate of 10 *per cent per annum*, repayable with monthly rests by March 2010. The Company spent Rs 143.10 crore on land acquisition, land development, rehabilitation and related expenses excluding interest on loan, and invested Rs 55.56 crore in fixed deposits at 7.3 *per cent per annum* while the balance Rs 1.34 crore remained unspent. Thus, injudicious drawal of loan led to additional interest burden of Rs 1.44 crore between September 2006 and July 2007, due to differential interest rate between the borrowing rate and rate of return on deposits.

The Management stated (May 2007) that the Government would provide interest-free loan to the Company to pay interest on loan and therefore, the Company would not sustain any loss. The reply is not tenable since the Government had provided a loan and not any grant or subsidy. The loan has to be ultimately repaid by the company.

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<sup>3</sup> Land acquisition – Rs 133.10 crore, acquisition related expenses – Rs 91.23 lakh, development expenses – Rs 2.96 crore, legal/ project management charges – Rs 34.08 lakh, camp office expenses – Rs 10.49 lakh, training programme expenses – Rs 78.52 lakh, additional consent money – Rs 1.55 crore, direct purchase of lands & payment to bargadars – Rs 3.19 crore, interest on loan up to July 2007 – Rs 17.50 crore and miscellaneous expenses – Rs 15.50 lakh

<sup>4</sup> Ancillary units that would supply components for TML's small car factory

### ***Irregular payment as ‘Consent Awards’ beyond statutory provisions***

According<sup>5</sup> to the Land Acquisition Act 1894, before acquiring any land for a public purpose, LAC must notify in the Official Gazette the land likely to be needed, hear objections to the proposal and award compensation only after an enquiry. Where claims for compensation were submitted in writing by the land owners/ interested persons, the Government had directed (June 2006) that the LAC would allow such claims within additional 10 *per cent* of the assessed value of land and make payments as ‘Consent Award’<sup>6</sup> before acquiring the land.

But, the Company, without following the above procedure, decided (December 2006) to pay further ‘fixed 10 *per cent*’ of the assessed values to all land owners who had earlier failed to make applications for consent awards. Accordingly, it placed (January/ February 2007) Rs 1.55 crore at the disposal of LAC for disbursement as delayed ‘Consent award’ to the awardees who subsequently agreed to LA awards.

The Management stated (May 2007) that many of the land owners had represented that they could not apply to LAC in time to have their names included in the award so as to avail additional compensation, although they agreed to the valuation of the land, and had their names been included, they would have received the additional compensation.

The reply is not tenable since under the Land Acquisition Act 1894, there was no provision for payment of additional compensation when the land owners had already agreed to the valuation of the LAC.

### ***Loss on long term lease to Tata Motors Limited***

The Company leased (March 2007) 645.67 acres of land valuing Rs 96.72<sup>7</sup> crore to TML for 90 years (with an option to extend on the terms and conditions as may be mutually agreed) against annual lease rent of rupees one crore from the first to the fifth years and rising over the years to reach Rs 20 crore from the 61<sup>st</sup> to the 90<sup>th</sup> years.

As per the directive (February 2006) of the Government for long-term leases for 99 years, the lessee should pay 95 *per cent* of the market value of the land as one time premium (*salami*) on commencement of the lease and pay annual rent at the rate of 0.3 *per cent* of the market value of the land. Accordingly, on the lease of 645.67 acres to TML, the Company should have realised premium of Rs 91.88 crore and lease rent of Rs 29 lakh annually.

The present value<sup>8</sup> of aggregate of premium (Rs 91.88 crore) and cumulative annual lease rent (Rs 2.85 crore) comes to Rs 94.73 crore, at a discount factor<sup>9</sup> of 10 *per cent*. Against this, the present value of cumulative lease rent of

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<sup>5</sup> Sections 4, 5A, 6, 11(2) & 16

<sup>6</sup> Under Section 11(2) of Land Acquisition Act 1894

<sup>7</sup> Prorata value of 645.67 acres based on value of Rs 140.16 crore for 935.67 acres

<sup>8</sup> The present value is the total amount that a series of future payments is worth now

<sup>9</sup> Discounted at 10 *per cent*-interest rate at which the Company obtained loan

Rs 855.75 crore payable by TML over 90 years works out to Rs 18.62 crore at the same discount factor, entailing loss of Rs 76.11 crore to the Company over the entire lease period.

The Management stated (May 2007) that the terms and conditions of the lease had been drawn in pursuance to special incentive package, decided by Government for TML. The contention is not tenable because (i) according to the Company 'WBIDC is not a subordinate office of the State Government'. Hence, the subsidy, if any, to be passed on to TML should have been borne by Government and not by the Company, which was already burdened with the liability to repay the loan and interest from its own funds at the instance of the Government and (ii) the details of special incentive package were not furnished to Audit though called for (May/ September 2007).

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

#### **4.2 Injudicious sanction of loans**

##### **Lack of appropriate pre-sanction appraisal, coupled with injudicious release of funds resulted in loss of Rs 2.17 crore to the Company.**

Gangotri Petrochemicals Ltd (GPL) approached the Company to finance a part of the capital cost (Rs 2.01 crore<sup>10</sup>) for setting up a formaldehyde manufacturing plant at Raninagar, District Jalpaiguri with the schedule of commencing commercial production in December 1996. It was observed that GPL could not arrange its part of the counter finance from any Bank<sup>11</sup>

Ignoring the fact that the Banks had refused to extend any assistance to GPL as it failed to adhere to Banks terms and conditions, delay in project implementation, lack of managerial/ technical/ financial capabilities and failure of one similar industrial unit to take off in Siliguri, the Company in total disregard to Banks appraisals and commercial practices, released (October 1996 to October 2003) Rs 2.31 crore<sup>12</sup> to GPL in the form of TL, equity contribution and relief by converting interest overdue into funded interest loan.

Against the original revised date of commercial operation (December 1996), GPL actually started operation after a delay of 67 months in July 2002 with working capital loan assistance of Rs 37.50 lakh from United Bank of India (UBI).

Despite the relief and concession, the unit stopped operation from April 2004 due to non-availability of raw-materials from Assam Petrochemicals Ltd.,

<sup>10</sup> Means of finance : equity by promoters – Rs 0.61 crore, unsecured loan to be brought by promoters – Rs 0.20 crore, term loan from WBIDC – Rs rupees one crore, terms loan from bank to be arranged by GPL–Rs 0.20 crore

<sup>11</sup> Allahabad Bank, State Bank of India

<sup>12</sup> TL(Rs 1.28 crore), equity contribution (Rs 10 lakh), relief by converting interest due funded interest loan (Rs 93.28 lakh).

shortage of working capital and high incidence of interest burden etc. UBI did not also enhance the cash credit limit as the project was found to be un-viable.

As GPL failed to pay the principal alongwith interest thereon, the Company served (February 2004) a notice on GPL under section 30 of State Financial Corporations Act, 1951 to pay dues of Rs 2.54 crore towards principal (Rs 2.21 crore) and interest (Rs 0.33 crore) upto December 2003. Ultimately, the Company took over the assets of GPL in December 2005 under section 29 of the Act *ibid*, and valued the assets at Rs 87 lakh. The Company's efforts (April 2007) to sell the assets did not fructify as the value of an offer against the entire movable assets was only Rs 15.31 lakh against its valuation of Rs 68.36 lakh made by the valuer. No offer for sale of immovable assets has been received so far (September 2007).

Thus, deficient pre-sanction appraisal, coupled with injudicious release of funds in violation of the terms of sanction, resulted in loss of Rs 2.17 crore<sup>13</sup> to the Company.

The matter was reported to the Management and Government (June 2007); their replies had not been received (September 2007).

**WEST BENGAL INDUSTRIAL DEVELOPMENT CORPORATION LIMITED & WEST BENGAL INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION**

**4.3 Irregular payment of ex-gratia**

**West Bengal Industrial Development Corporation Limited and West Bengal Industrial Infrastructure Development Corporation paid ex-gratia of Rs 41.18 lakh to their employees in violation of the instructions of the State Government.**

As per the State Government's instructions (October 2002 –September 2006), *ex-gratia* at Rs 1,000 per head was payable by the Public Sector Enterprises (PSEs) from the year 2001-02 onwards, to employees drawing emoluments exceeding Rs 3,500 *per mensem*, provided their emoluments did not exceed Rs 8,300 *per mensem* as on 31 March of 2003, 2004, 2005 and 2006. It was noticed (February/ May 2007) that -

(a) The Chairman/ Managing Director of West Bengal Industrial Development Corporation Limited (Company) approved (May 2003 – September 2005) the payment of *ex-gratia* amounting to Rs 19.63 lakh for the years 2001-02 to 2005-06 to its employees whose salary/ wages exceeded the limit prescribed under the Government's directive i.e Rs 8,300 *per mensem*. Further, in violation of the instructions of the State Government, the Company paid *ex-gratia* to employees whose salaries ranged between Rs 3,500 and Rs 8,300 per mensem, at the rate of Rs 2,500 (2001-02), Rs 4,000 (2002-03),

<sup>13</sup> Principal – Rs 1.28 crore, FITL – Rs 0.93 crore and interest upto September 2004 - Rs 0.73 crore = Rs 2.94 crore + investment in share capital – Rs 0.10 crore less value of assets – Rs 0.87 crore.

Rs 5,000 to Rs 11,000<sup>14</sup> (2003-06) instead of Rs 1,000, leading to irregular payment of *ex-gratia* amounting to Rs 5.49 lakh during the above period.

The Management accepted (June 2007) the audit observation. The Company, however, did not take any action to either recover the amount or obtain post-facto approval from the State Government for regularisation.

(b) Similarly, the Board of Directors/ Chairman of West Bengal Industrial Infrastructure Development Corporation (Corporation) approved (January 2003, January 2004, October 2005) payment of *ex-gratia* of Rs 11.80 lakh for the years 2001-02, 2002-03 and 2005-06 to its employees whose salary/wages exceeded Rs 8,300 *per mensem*. Further, in the same years, the Corporation paid *ex-gratia* to those employees with salaries ranging from Rs 3,500 to Rs 8,300 *per mensem* at the rate of Rs 2,800 (2001-03) and Rs 3,000 (2005-06) respectively per employee instead of Rs 1,000, leading to irregular payment of *ex-gratia* of Rs 4.26 lakh during the above period. The payment of *ex-gratia* for 2005-06 also did not have the approval of the Board of Directors.

While accepting the facts, the Corporation stated (June 2007) that to boost the morale and motivate the employees, the Management considered payment of *ex-gratia* over the ceiling limit out of its own funds. The fact, however, remains that *ex-gratia* was paid in violation of the Government's directives.

Thus, payment of *ex-gratia* amounting to Rs 41.18 lakh to employees was irregular and inconsistent with the instructions of the Government.

These matters were reported to the Government (May/ June 2007); their reply had not been received (September 2007).

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

### **4.4 Loss of interest**

**The Company sustained loss of Rs 9.11 crore due to injudicious release of loans to defunct enterprises.**

The average cost of borrowings of the West Bengal Infrastructure Development Finance Corporation Limited (Company) during 2003-04 and 2004-05 was 10.71 and 10.38 *per cent* respectively while the spread was 0.31 and 5.41 *per cent*.

It was noticed (November 2006) that five enterprises<sup>15</sup> which had obtained loans from West Bengal State Co-operative Banks (WBSCB) against

<sup>14</sup> Paid as a percentage of basic pay (5 to 7.5 percent) as performance linked incentive

<sup>15</sup> Alcond Employees Industrial Cooperative Society Ltd. (Rs 10.46 crore), Murshidabad Jute Industries (Rs 0.76 crore), Maa Tara Jute Supplies (Rs 3.73 crore), Indian Farmers and Khadi Welfare Society (Rs 11.84 crore) upto 31 March 2004 and New Central Co-operative Credit Society Ltd (Rs 2.31 crore) upto 31 March 2005

Government guarantee, defaulted in repayment of loans and interest thereon aggregating to Rs 29.10 crore till 31 March 2004/ 31 March 2005<sup>16</sup>. The State Government, though being the guarantor, also did not discharge these liabilities. Instead these enterprises were asked (March 2004/ March 2005) by the State Government to approach the Company for liquidating their dues to WBSCB and to get the amount so discharged as loans in their favour, repayable with interest within six years. In the event of default, the Government would make necessary provision in the State budget for payment of the amount. A copy of the aforesaid Government letter, was neither endorsed to the Company by the Government nor was a request to this effect made directly to the Company.

The Company liquidated (March 2004/ September 2005) the entire dues of Rs 29.10 crore of WBSCB and equivalent sum was sanctioned as loan to these five enterprises who had approached the Company for loans. The terms of the loans *inter-alia* provided that the enterprises would pay interest at the rate of 10.50 per cent per annum on the outstanding balance and repay principal in six annual instalments effective from 31 March 2005/ 31 March 2006. The State Government guaranteed (September 2005) to repay the loans alongwith interest.

**At the time of sanctioning loans/ liquidating dues of WBSCB, the Company was aware of the fact that the financial position of these loanees was precarious and they were chronic defaulters. Hence, the possibility of repayment of the loan in six instalments was largely doubtful. Also the State Government had not honoured the claim of WBSCB for repayment of the loans and interest despite default by the loanees on earlier occasions. The Company should have considered these facts as a matter of commercial prudence while sanctioning the loan.**

None of these enterprises repaid any of the instalments alongwith interest thereon till March 2006. **Despite this default, the Company, without raising a claim on the guarantor i.e. the Government, suo moto, decided (June 2006) to waive the outstanding interest of Rs 6.05 crore as on 31 March 2006 stating that these enterprises were either defunct or under strained financial condition.** The Company thereafter approached (August 2006) the State Government for repayment of the entire principal aggregating to Rs 29.10 crore within a period of two months, which was received only in March 2007.

The Management stated (January 2007) that these units were weak, defunct or sick in nature and did not possess the financial capacity to repay the loans and consequently, the Board of Directors approved the waiver of interest. The contention is not acceptable as, before the sanction of the loans, the precarious financial position of these loanees and the defaults made by them was already known to the Company. Moreover, the loan sanctioned were not meant for improving their financial position/ repayment capacity but were for discharge of their earlier loans which they could not repay.

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<sup>16</sup> For New Central Co-operative Credit Society Ltd

**Thus, decision to liquidate the outstanding liability of these sick enterprises payable to WBSCB out of its borrowed funds bearing interest at the rate of 10.71 - 10.38 per cent per annum and to waive off the interest accrued till March 2007 was injudicious. This resulted in loss of Rs 9.11 crore to the Company.**

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

#### **4.5 Additional interest burden due to delay in issue of bonds**

**Though aware of the rising interest rates, the Company delayed issue of bonds aggregating Rs 870.50 crore leading to payment of additional interest of Rs 1.86 crore till June 2007.**

The Company proposed (January 2006) to issue bonds for Rs 500 crore guaranteed by the State Government, with an option of another Rs 500 crore, to prematurely redeem earlier bonds of Rs 544.72<sup>17</sup> crore in April 2006 as well as financing its future business plans. The Company needed to float these bonds, with tenure of at least 10 years, to overcome its 'asset/ liability mismatch'<sup>18</sup>. The future business plans had not, however, been chalked out by the Company.

Since the funds were to be mobilised by the third week of March 2006, the Company engaged (February 2006) two<sup>19</sup> agencies for undertaking credit rating of the intended bond issue. The Company, however, obtained the ratings only in April 2006. The Company attributed (January 2007) the delay to draw up its accounts since 2004-05 as well as to attend to 'quite a few formalities connected with earlier bonds issues'. The Company approached (2 March 2006) the State Government for guaranteeing the principal and interest on the proposed issue of bonds which was guaranteed by the State Government on 24 March 2006. Thus, due to delays in obtaining the credit rating and guarantee of the Government the Company failed to issue the bonds at the appropriate time and obtained (March 2006) loan of Rs 490 crore from Bank of Baroda to prepay the earlier bonds.

Subsequently, the Company issued<sup>20</sup> (September 2006) bonds for Rs 870.50 crore when interest rates were on the upswing. These bonds were issued without put and call option with tenure of 10 years, bearing interest of 9.1 per cent per annum payable on 30 June and 31 December and treated 5 October 2006 as the date of allotment. It was noticed (November 2006) that bonds of similar tenure issued by other financial institutions between January and March 2006 carried interest at the rates of 7.60 to 8.83 per cent per annum.

<sup>17</sup> Principal – Rs 527.80 crore, interest – Rs 16.92 crore for seven year bonds issued in 2000-01

<sup>18</sup> Since the Company lent for longer periods while borrowings by the Company were for shorter periods

<sup>19</sup> Credit Analysis & Research Limited (CARE) and Fitch Ratings India Private Limited (Fitch)

<sup>20</sup> Issue opening date – 6 September 2006; issue closing date – 13 September 2006



Since the Company failed to prepare accounts in time and comply with formalities of earlier issues of bonds, the issue of bonds was delayed (September 2006) which saddled it with a higher rate of interest of 9.1 *per cent per annum* instead of 8.83<sup>21</sup> *per cent per annum*, leading to payment of additional interest of Rs 1.86 crore from September 2006 to June 2007. Further, the Company would continue to incur additional interest of Rs 2.35 crore per annum aggregating to Rs 21.77 crore between July 2007 and October<sup>22</sup> 2016 indicating the Company's failure to co-ordinate and plan the issue of bonds in time to take advantage of lower rates of interest.

The Company stated (January 2007) that the issue of bonds was put on hold since (a) State Government had indicated that it would not be requiring additional loan from the Company, (b) due to liquidity constraints in the money market, the interest rates started rising and (c) the bond market witnessed a significant degree of volatility. The reply is not tenable since the Company was aware that (a) proceeds of bond were not meant for lending to the Government and (b) due to delays on the part of the Company, the interest rate at which the bonds were ultimately issued was higher than that prevailed during March 2006.

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

## CALCUTTA STATE TRANSPORT CORPORATION AND NORTH BENGAL STATE TRANSPORT CORPORATION

### 4.6 *Loss due to delay/ non-implementation of fare revisions*

**In violation of the State Government directives, two State Transport undertakings delayed / had not implemented notified fare structures that led to loss of revenue of Rs 7.20 crore during July 2004 to March 2007.**

The State Government is empowered<sup>23</sup> to revise the fares to be charged by road transport operators keeping in view the rising cost of operation. A review of the Government records revealed that the State Government revised the fares only when there was increase in fuel prices and private bus operators approached them for fare hike. During 2004-07, the State Government revised bus fares for the Five<sup>24</sup> State Transport Undertakings (STUs) and private bus operators thrice<sup>25</sup> to be effective<sup>26</sup> from six to seven days of the Government notifications. Scrutiny of records of fare revision of the STUs revealed the following deficiencies:

<sup>21</sup> Being the highest rate for bonds of around ten years without put or call option

<sup>22</sup> Ten years from deemed allotment date of 5 October 2006

<sup>23</sup> Section 67 of the Motor Vehicles Act, 1988

<sup>24</sup> CSTC : Calcutta State Transport Corporation, NBSTC : North Bengal State Transport Corporation, SBSTC : South Bengal State Transport Corporation, WBSTC : West Bengal Surface Transport Corporation Limited and CTC : The Calcutta Tramways Company (1978) Limited

<sup>25</sup> On 29 June 2004, 17 January 2005 and 27 September 2005

<sup>26</sup> 5 July 2004, 24 January 2005 and 3 October 2005

Two STUs viz. CSTC and NBSTC, either did not implement or delayed the implementation of the fare structure notified by the State Government, leading to loss of revenue of Rs 7.20 crore, as discussed below :

- Between 24 January 2005 to October 2005, CSTC did not implement the increase (January 2005) of one paise per km in fares of Intra State long distance service (LDS) route, leading to loss of revenue of Rs 47.18 lakh.
- Moreover, on 57 LDS routes, CSTC revised (November 2005) fares from Re 0.39 to Re 0.41 per kilometre (km) instead of the notified fare of Re 0.45 per km with effect from October 2005 without any recorded reason for deviation.
- On 30 LDS routes, CSTC allowed (June 2005/ November 2005) 10 to 20 *per cent* discount over the fares fixed by the State Government for frequent/ regular travellers without laying down procedure for identification of such travellers. Consequently, fares were realised on these routes at discounted rates leading to loss of revenue of Rs 4.24 crore during October 2005 to March 2007.
- Instead of revising the fares from 3 October 2005, CSTC revised (15 November 2005) the fare for LDS after delay of 43 days without any recorded reason, leading to loss of revenue of Rs 49.69 lakh.
- In respect of Express bus 'Rocket Service', against the effective fare of Rs 279 per trip from 24 January 2005 on Kolkata-Siliguri route, CSTC partially revised (9 June 2005) the fare to Rs 235 per trip after lapse of 128 days, and did not implement the enhanced (June 2005) fare of Rs 297 per trip till date (May 2007) leading to loss of revenue of Rs 1.29 crore.
- Although the State Government revised (5 July 2004) the fare for LDS routes, NBSTC implemented (11 September 2004) the same after a delay of 67 days, leading to loss of revenue of Rs 23.13 lakh.
- Further, NBSTC did not implement revised fares for LDS routes as approved by the State Government from 24 January 2005 to 3 October 2005, leading to loss of revenue of Rs 46.97 lakh.

CSTC stated (September 2007) that stipulated seven days time for implementation of revision of fares (October 2005) was not sufficient for LDS route. For non-revision of 'Rocket service' fare, it stated that considering the prevalent market condition, demand and fare structures of private operators/ other STUs, the Management apprehended that hike in fare would lead to decline in the earnings of CSTC.

The reply is not acceptable as (i) during previous fare revision in July 2004, CSTC had implemented the revised fare structure within the stipulated period, and (ii) the apprehension of decline in earnings due to revision of 'Rocket service' fares was not justified since other STUs had already revised fares on these routes by the due date. Moreover, fares of private operators for similar service were higher by Rs 80 to Rs 105 than those of CSTC.

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

## THE CALCUTTA TRAMWAYS COMPANY (1978) LIMITED

### 4.7 *Excess expenditure and loss of contribution*

**The Company incurred additional expenditure of Rs 27.50 lakh on bus body construction and loss of contribution of Rs 12.55 lakh due to delay in registration of buses.**

To build bus-bodies on 70<sup>27</sup> chassis, the Calcutta Tramways Company (1978) Limited (Company) without inviting open tender, called (April 2006) offers telephonically from ten enlisted contractors. All of them quoted (April 2006) uniform rates<sup>28</sup> stated to be based on the rates finalised by Calcutta State Transport Corporation (CSTC). After negotiation, the Company entered (April 2006) into firm price contracts with 10 contractors for Rs 2.69 crore<sup>29</sup>. In this connection, the following points were noticed (December 2006) :

(i) The negotiated rates accepted by the Company were higher than those of CSTC<sup>30</sup> by four to five *per cent*, which led to additional expenditure of Rs 9.25<sup>31</sup> lakh.

(ii) The contractors claimed (May/ June/ August 2006) price escalation of Rs 39,000 to Rs 42,000 per bus (Model - TATA 1510) and Rs 1.30 lakh to Rs 1.39 lakh (Model – Viking) for increase in material cost and change in specifications respectively. The Company, in deviation of contractual provisions, paid (June/ November 2006) escalation of Rs 18.25<sup>32</sup> lakh to the contractors.

(iii) The Company handed over 70 chassis to the contractors between April and August 2006. The contractors delivered the buses between June and November 2006. Against the contractual period of 45 days for delivery of complete buses, 59 were delivered after delays of two to 102 days mainly due to delays in finalising the designs, in inspection, giving administrative and technical clearances etc. indicating lack of coordination and planning by the Company. Consequently, the Company had to waive liquidated damages of Rs 14.62 lakh despite total delay of 2,050 days.

<sup>27</sup> Type - TATA 1510 - 35, TATA 709 - 15, Leyland Cheetah – 15 and Leyland Viking - 5

<sup>28</sup> TATA 1510/52 - Rs 4.05 lakh, TATA 709/ Minibus - Rs 2.95 lakh, Leyland Cheetah - Rs 4.10 lakh and Leyland Viking - Rs 4.20 lakh.

<sup>29</sup> Rs 268.50 lakh (Rs 4.05 lakh x 35 + Rs 21.95 lakh x 15 + Rs 4.10 lakh x 15 + Rs 4.20 lakh x 5)

<sup>30</sup> TATA 1510/55 – Rs 3.90 lakh, TATA 709 - not applicable, Leyland Cheetah – Rs 3.90 lakh and Leyland Viking- Rs 4.00 lakh

<sup>31</sup> {(Rs 4.05 lakh less Rs 3.90 lakh) x 35 chassis} + {(Rs 4.10 lakh less Rs 3.90 lakh) x 15 chassis} + {(Rs 4.20 lakh less Rs 4.00 lakh) x 5 chassis}

<sup>32</sup> Rs 35,000 x 35 chassis for TATA-1510 plus Rs 1.20 lakh x 5 chassis for Viking

(iv) Further, the Company delayed registration of 55 buses by eight to 99 days resulting in delay in their commissioning by 1,958 days. Thus, delays of 4,008 days led to loss of contribution<sup>33</sup> of Rs 12.55 lakh.

The Company stated (June 2007) that the rates of CSTC were not comparable with the rates accepted by the Company, as CSTC's rates were fixed in November 2005 after which cost of raw materials increased. This apart, the decision to build five deluxe buses instead of ordinary buses, compelled the Management to allow price escalation. Further, delay in registration of buses was due to delay in receipt of Government order allowing the Company to operate BS-II buses so purchased, instead of BS-III buses.

The reply is not acceptable as (i) the rates at which CSTC placed (March 2006) orders for similar work on larger sizes of buses were lower, (ii) although price escalation was discussed (April 2006) with the bidders, it was not included in the contracts, (iii) the delays in delivery of bus bodies were attributable to controllable factors, and (iv) procurement of environmentally non-compliant buses (BS-II) compounded the delay in registration of buses.

Thus, the Company incurred additional expenditure of Rs 27.50 lakh on building bus bodies at higher rates and on escalation beyond contractual terms as well as incurred loss of contribution of Rs 12.55 lakh due to delays in building of bus bodies and registration of buses.

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

## **WEST BENGAL SURFACE TRANSPORT CORPORATION LIMITED**

### **4.8 Undue benefit to an operator beyond contractual provisions**

**The Company extended undue benefit of Rs 38.88 lakh to a jetty and loaded carriage tug operator by reimbursing the expenditure on repairing of jetties and LCT, beyond the terms of the revised operating contract.**

The West Bengal Surface Transport Corporation Limited (Company), appointed (March 1998) P.G. Enterprise<sup>34</sup> (PGE) for rectification of defects of Loaded Carriage Tug (LCT) as well as operating contractor for the jetties and LCT from July 1998. As per the agreement (March 1998), the lease was valid for 15 years with no provision for extension. PGE was to pay the Company annual license fees of Rs 2.40<sup>35</sup> lakh. In terms of the agreement, the Company reimbursed (March/ May 1998) Rs 10 lakh towards rectification of defects.

After four years, the Company and PGE rescinded (June 2002) the agreement and entered into a fresh agreement effective retrospectively from March 1998.

<sup>33</sup> During 2005-06, the Company earned actual contribution of Rs 313 per bus per day

<sup>34</sup> Name of the sole proprietor – Shri Paritosh Ghosh

<sup>35</sup> Enhanced to rupees three lakh from September 2001 to May 2002, Rs 3.30 lakh between June 2002 and May 2006 and thereafter, Rs 3.42 lakh

There was nothing on record to indicate the reasons for revising the agreement nor to show the review of the performance of the operator. The revised agreement doubled the lease period from 15 to 30 years, with option to extend it further. The revised agreement also provided that PGE would bear all costs including cost of repairs and maintenance of the jetties and LCT. No approval from the Board of Directors (BoD) was obtained.

It was observed (July 2007) that PGE, in deviation of the revised contractual terms and conditions, claimed (October/ December 2004) reimbursement of Rs 23.32 lakh towards cost of repair and maintenance incurred by PGE in October-November 2004. By withholding the fact that PGE was liable to bear the expenditure on repairs, the Company obtained (December 2004) the Government grant of Rs 12 lakh and reimbursed (January/ April 2005) Rs 23.32 lakh to PGE.

Subsequently, PGE again claimed (June 2005) Rs 15.56 lakh towards the cost of repair proposed to be incurred, which the Company also released (December 2005 - February 2007) against two<sup>36</sup> bills for Rs 15.73 lakh. In this instance, also the Company obtained (October 2005) Government grant of Rupees eight lakh, despite the fact that the PGE was contractually bound to undertake the expenditure under the revised agreement.

Thus, the Company extended undue benefit of Rs 38.88 lakh to the PGE, by reimbursing the cost of repair of jetties and the LCT, beyond the scope of the contract. Moreover, the Company had reimbursed to PGE an aggregate amount of Rs 48.38 lakh towards repair of jetties and LCT, whereas it had received licence fees of Rs 26.56 lakh during July 1998 to June 2007.

The Management stated (September 2007) that the BoD had not approved (August 2007) the revised agreement and reverted to the original agreement. Further, the Company had received Rs 52.99 lakh as lease rental from PGE towards two LCTs, viz. M.V. Matsyagandha and M.V. Meghamallar.

The reply is not tenable since the payments were made under the revised agreement which had no provision for the same and the Company had entered (October 1999) into a different ten-year agreement for leasing of M.V. Meghamallar. Moreover, this agreement for M.V. Meghamallar also provided that all expenses on repair and maintenance be borne by PGE.

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

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<sup>36</sup> December 2005 and May 2006

## THE DURGAPUR PROJECTS LIMITED

### 4.9 Loss of energy due to purchase of less efficient transformers

**Due to delay in finalisation of tender, the Company not only failed to avail the lowest evaluated rate of ABB but had to purchase less energy efficient transformers which would cost the Company Rs 6.68 crore towards additional loss of 3.46 MU power over the life of those transformers.**

Against a tender (April 2002) for purchase of four 132/11 KV transformers (capacity : 31.5 MVA each), The Durgapur Projects Limited (Company) received eight offers of which three<sup>37</sup> were found (June 2002) to be technically suitable. The validity of the offers was to expire in September 2002. After a lapse of four months and expiry of validity of offer, the Company appointed (October 2002) a technical committee (TC) to evaluate the technical bids. Before the receipt of TC's recommendations, the Company opened (December 2002) the price bids of three parties viz. Alstom (Rs 98.51 lakh), ABB (Rs 1.04 crore) and BHEL (Rs 1.14 crore) for each transformer. The bidders also quoted the inherent losses<sup>38</sup> in each transformer at 171.05 KW (BHEL), 162.50 KW (Alstom) and 136.40 KW (ABB). Thus, the transformers of ABB were more energy efficient than Alstom and BHEL. As the validity period of the offers ended in September 2002, the Company asked (December 2002) them to extend the validity period. Except Alstom, no other bidder extended the validity period.

After technical evaluation, the TC determined (February 2003) the capitalised value of such inherent loss of energy in each transformer at Rs 1.47 crore (Alstom), Rs 1.24 crore (ABB) and Rs 1.53 crore (BHEL) respectively. By adding this to the landed price, the offer rate of each transformer stood at Rs 2.45 crore (Alstom), Rs 2.28 crore (ABB) and Rs 2.67 crore (BHEL). The offer rate of ABB was found to be lowest after adding the value of capitalised loss. But the Company could not place order on them, as ABB refused (December 2002) to extend the validity period of their offer. Ultimately, a year after inviting tender, the Company placed (April 2003) the order on Alstom at Rs 3.93 crore even though their transformers were less energy efficient as these would waste 26.10 KW of energy in excess of the ABB transformers. The transformers were received between February and June 2004.

Thus, due to delay in finalising the tender, the Company not only failed to avail the lowest evaluated rate of ABB, but also purchased less energy efficient transformers. Had the Company placed the order on ABB in time it

<sup>37</sup> Alstom Limited (Alstom), Asea Brown Boveri Limited (ABB) and Bharat Heavy Electricals Limited (BHEL)

<sup>38</sup> Inherent losses include the 'Load losses' i.e. additional losses occurred as a result from load currents flowing through the transformer are based on the resistance of the winding conductors, 'No-load losses' i.e. the power required to energise the core of the transformers and 'Auxiliary losses' i.e. the power required to run auxiliary cooling equipment such as fan, pump etc. of the transformer.

could have saved 3.46 million units of power valued at Rs 6.68 crore<sup>39</sup> over the useful life of these transformers.

While admitting the failure to place the order at lowest evaluated cost, the Management stated (August 2007) that instead of loss of energy of Rs 6.68 crore, the Company would actually incur loss of Rs 68 lakh being the differential evaluated cost of L<sub>1</sub> and L<sub>2</sub> bidders.

The reply is not tenable as the evaluated cost notionally recognised inherent loss of transformer at a given point of time, whereas Audit worked out these losses on the basis of rates of such losses furnished by the bidders over the useful life of the transformer.

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

**WEST BENGAL WASTELAND DEVELOPMENT CORPORATION LIMITED & WEST BENGAL FOREST DEVELOPMENT CORPORATION LIMITED**

**4.10 Payment of avoidable interest and penalty**

**West Bengal Wasteland Development Corporation Limited and West Bengal Forest Development Corporation Limited paid Rs 37.86 lakh as interest and penalty due to delayed submission of income tax returns, short/ non-payment towards advance income tax and delays in payment of demands.**

Under the Income Tax Act, 1961 (Act) a corporate assessee is, *inter alia*, required to pay in four<sup>40</sup> advance instalments at the prescribed rates, income tax on total taxable income for the financial year preceding the assessment year as well as submit the estimate of current income on which such advance tax was calculated. Further, the assessee must annually submit returns of its income for every financial year within the specified due dates<sup>41</sup> along with audited accounts and report thereon, if annual total sales/ turnover or gross receipts exceed Rs 40 lakh. Moreover, the assessee shall pay amounts claimed through notices of demand<sup>42</sup> within 30 days of their serving. Failure to comply with these provisions by two PSUs rendered them liable to pay interest and penalty of Rs 37.86 crore under<sup>43</sup> the Act, as discussed below.

<sup>39</sup> Differential 'load' and 'auxiliary' loss of ABB and Alstom transformer at 23.7 KW x 24 hours x 25 years / transformer load at 60 per cent x 4 transformer = 3.46 M.U. x Rs 1.93 per unit.

<sup>40</sup> On or before 15 June, 15 September, 15 December and 15 March of the financial year preceding the assessment year according to Sections 207 to 211 of the Act

<sup>41</sup> For the financial year by 31 July and 30 November of the following financial year till 31 March 1989 and 31 March 2001 respectively as per Section 139 and 44AB of the Act

<sup>42</sup> Issued under Section 156 of the Act

<sup>43</sup> Sections 139(8), 215, 217(1A), 234A, 234B, 234C, 220(2), 271(1), 271B and 273(1) of the Act

(a) For the financial years 2004-05 and 2005-06, West Bengal Forest Development Corporation Limited (WBFDC) did not prepare realistic budget to estimate annual taxable income to assess the advance income tax payable for each quarter. Instead, it computed advance income tax on budgeted and revised estimated income without considering actual increase in net revenue attributable to the Joint Forest Management project under implementation. As a result, WBFDC deposited by 15 March every year, only Rs 78.74 lakh and Rs 2.43 crore against annual tax liability of Rs 1.16 crore and Rs 4.04 crore for 2004-05 and 2005-06 respectively, leading to short payment of Rs 37.42 lakh and Rs 1.61 crore. Consequently, WBFDC had to pay (August 2005/October 2006) avoidable interest of Rs 24.68 lakh to IT since it failed to deposit the requisite advance tax within the due dates.

While accepting the fact, WBFDC stated (August 2007) that during 2006-07, it had prepared a 'realistic budget' and expected no shortfall in payment of advance tax. The reply is silent as to why such budget was not prepared in earlier years to project the actual earnings liable to tax.

(b) West Bengal Wasteland Development Corporation Limited (WBWDC) neither paid advance income tax nor did it file annual returns for the financial years 1995-96 to 2002-03 within the due dates. Consequently, the Income tax authorities (IT) assessed (February 2003 – September 2005) WBWDC to income tax of Rs 9.72 lakh and interest of Rs 13.18 lakh, which was paid by/recovered from WBWDC between October 2002 and January 2005. Thus, WBWDC's negligence in complying with statutory requirements resulted in payment of avoidable interest of Rs 13.18 lakh to IT.

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

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

### **4.11 Non-recovery of staff cost**

**The Company incurred unproductive expenditure of Rs 1.83 crore on salaries paid to its employees working for the Forest directorate.**

Under the Forest (Conservation) Amendment Act 1988, the State Government imposed strict restrictions on commercial felling of trees in the Darjeeling area. Consequently, the Darjeeling Forest Division<sup>44</sup> (Division) of West Bengal Forest Development Corporation Limited (Company) became unviable and was transferred (November 1992) to the Forest Department (Department) as per the State Government's order of May 1992.

Accordingly, 153 of the Company's employees were posted under Kalimpong (G&S) division of the Company. Due to resentment from employees, both the Company and the Department decided (January 1993) to deploy them in

<sup>44</sup> Acquired in November 1974 on lease from the Forest Directorate



Darjeeling area either by expanding forest activities in that area or by absorbing them into the Directorate. Without finalising the terms and conditions, the Department posted (June 1995) 17 such employees to the Forest Directorate (Directorate) in Darjeeling. The Department instructed (June 1995) the Company to bear the salaries of these employees. As these employees were on deputation, acceptance of their salary liability by the Company lacked justification.

Finance Department of the State Government rejected (February 2001) the Company's claim (August 1998) for reimbursement of salary cost (July 1995 to March 1997) of Rs 15.44 lakh. But, the Company continued to pay the salaries of these employees which stood at Rs 1.38 crore upto March 2005.

Ultimately, the Company decided (April 2005) to withdraw these staff from the Directorate and deploy them in other offices of North Bengal divisions of the Company. But, the Directorate had not relieved them, leading to further expenditure of Rs 45.44 lakh from April 2005 to March 2007<sup>45</sup> on their salaries.

Thus, the Company incurred unproductive expenditure of Rs 1.83 crore on salaries of those employees posted with the Directorate.

While admitting the facts, the Management stated (August 2007) that though the matter was referred to the Department several times, the Company failed to recover the unproductive expenditure from the Directorate.

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

## **WEST BENGAL ESSENTIAL COMMODITIES SUPPLY CORPORATION LIMITED**

### **4.12 Loss on export of garments**

**The Company suffered loss of Rs 1.28 crore on export of garments due to its failure to observe formalities in processing export documents, encash post dated cheques as well as lack of monitoring and control over the activities of the Associate.**

West Bengal Essential Commodities Supply Corporation Limited (Company) received (January 2004) a *suo moto* proposal from Nu-lite Business Machine Private Limited (Associate) for providing the Associate a pre-shipment credit of Rs 75 lakh for 180 days to finance export of garments to Middle East and European countries on the Company's usual terms and conditions. Two orders were received from Royal Coral Textile (RCT) and Red Square Trading (RST), Dubai, for export of garments valuing US\$ 5,10,000 to be executed by March 2004. In order to obtain packing credit from a bank the Company itself raised *proforma* invoices on the buyers. The contracts with the foreign buyers provided that the payment would be made through the buyers' banker on

<sup>45</sup> As of March 2007, 13 staff of the Company were under the control of Forest Directorate.

receipt of documents<sup>46</sup>. Further, there was no provision in the contracts for checking the quality of the consignment.

The Company, without specifying the quality of garments, entered (February 2004) into an agreement with the Associate and also appointed them as 'associate shipper' to export garments to Dubai. As per the agreement, the Associate would procure and store garments, arrange packing and shipment, prepare and submit documents to the Company and incur all expenditure relating to taxes, levies and duties for the export. The Company would invest 100 *per cent* of the basic price of the garments and the Associate would give post dated cheques (PDC). The Company would realise 1.5 *per cent* of FOB value from the export proceeds towards administrative and overhead expenses along with interest at the rate of 8.5 *per cent per annum* on invested funds.

The Company drew (February 2004) packing credit advance from a bank and paid (February/ June 2004) Rs 1.30 crore to the Associate after obtaining PDC of Rs 1.75 crore. Meanwhile, the Company took (March/ June 2004) policy coverage of Rupees two crore from Export Credit Guarantee Corporation of India Limited (ECGC) against the commercial risk for entering business with the two foreign buyers. The policy stipulated that the Company should submit monthly shipping declaration alongwith payment of premium by 15<sup>th</sup> of every following month. In case of failure, ECGC would reject the claim.

The Company exported garments in nine consignments to RST (US\$ 122,000) and RCT (US\$ 58,128), Dubai aggregating Rs 80.33 lakh (US\$ 1.80 lakh) between May and June 2004. Against this, the Company realised (June – September 2004) only \$68,178 (Rs 31.24 lakh). The Company neither submitted monthly return of shipment to ECGC nor did it monitor the timely submission of documents to banks after shipment. The Company's bankers intimated (September/November 2004) that bills valuing US\$ 1.02 lakh remained unpaid due to delayed submission of documents by the Company (US\$ 54,000) and 'document dishonoured'<sup>47</sup> by RST (US\$ 48,000). Moreover, the reasons for non-realisation balance payment of US\$ 10,000 were not on record.

The Associate neither exported the garments against the balance advance of Rs 49.67 lakh nor did it refund the unutilised advance to the Company. The whereabouts of balance garments were not on record. The Company also failed to encash the PDCs submitted by the Associate for which no reason was on record. The copies of PDCs though called for (February 2007) were not produced to Audit. The Company did not take any legal action against the Associate for their failure to complete the export obligation as well as to retrieve the stock lying at Dubai as well as with the Associate.

Thus, due to its failure to observe formalities in processing export documents, encash PDCs as well as lack of monitoring and control over the activities of

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<sup>46</sup> Bills of lading, packing list, invoice and certificate of origin

<sup>47</sup> As the bills remained unpaid by Red Square Trading Dubai, its bankers viz Emirates Bank returned the unpaid original documents stating reason as 'dishonoured documents'

the Associate, the Company suffered loss of Rs 1.28 crore<sup>48</sup> including interest of Rs 29.52 lakh on packing credit (Rs 1.30 crore) till March 2007.

The matter was reported to the Management and Government (June 2007); their replies had not been received (September 2007).

#### **4.13 Loss on financing import of Heavy Metal Scrap**

**The Company incurred loss of Rs 98.73 lakh in financing import of heavy metal scrap due to its' failure to verify the credentials of the contractual seller and buyer and issue of bank guarantee to the buyer for availing credit from bank.**

Gopal International, New Delhi (GI)<sup>49</sup> a registered trading house submitted (June 2001) a suo moto proposal to West Bengal Essential Commodities Supply Corporation Limited (Company) for import of heavy metal scrap (HMS) from South Africa. In the same month the Company entered (June 2004) into a contract with a South African firm<sup>50</sup> for import of 5000 tonnes of HMS for US\$ 12 lakh. It was observed that one of the Director of GI and the South African Company was common<sup>51</sup>.

**The Company without justification also entered (June 2004) into a separate contract with GI vide which it was to sell the HMS to GI and the Company would receive the payment of US\$ 5 per tonne through a letter of credit.**

Thereafter at the request of GI and South African firm the Company furnished (15 July 2004) a local Bank Guarantee (LBG) for Rs.1.08 crore from Union Bank of India valid for six months to GI to enable it to obtain credit facilities from Standard Chartered Bank (SCB) for import of HMS. The LBG was extended, in phases<sup>52</sup>, till 31 March 2006 against bank charges of Rs 4.86 lakh, of which Rs 2.43 lakh was reimbursed (December 2004/ March 2005) by GI.

However, as of November 2005, no HMS was received even after a lapse of 19 months. The Company sought (November 2005) return of the LBG for non-performance of the contract. In response, GI intimated (21 November 2005) that they had drawn overdraft against the LBG from the Standard Chartered Bank and asked the Company to honour the Bank's claim. GI also stated that it would repay the outstanding amount to the Company by 31 March 2006. Standard Chartered Bank, New Delhi invoked

<sup>48</sup> Rs 80.33 lakh less Rs 31.24 lakh = Rs 49.09 lakh plus Rs 49.67 lakh plus interest of Rs 29.52 lakh

<sup>49</sup> A proprietary concern represented by Shri Sanjib Kumar Saha, Proprietor-cum-Managing Director; Shri Govind Salgaonkar, Director- Export & Import; and Shri R. K. Sarkar, Officer-Administration

<sup>50</sup> Eximgateway Harvest Time Enterprises, Durban (Gateway), represented by Shri Govind Salgaonkar.

<sup>51</sup> Shri Govind Salgaonkar

<sup>52</sup> Till 31 March 2005 in December 2004, till 30 September 2005 in April 2005, till 30 November 2005 in September 2005 and till 31 March 2006 in November 2005

(November 2005) the LBG to recover its dues and Union Bank of India debited (November 2005) the Company's account with Rs 99.60 lakh. Thus the Company created liabilities of Rs.99.60 lakh without effecting transaction. It was observed that GI had not repaid the money (September 2007). In the absence of any security, the possibility of recovery of Rs 99.60 lakh appeared remote.

Thus, the Company's failure to evaluate the proposal in totality before entering into agreements and unjustified giving of bank guarantee, when the case could have been processed through letter of credit resulted in avoidable liability and loss of Rs 98.73<sup>53</sup> lakh.

The matter was reported to the Government and Management (May 2007); their replies had not been received (September 2007).

## **THE ELECTRO MEDICAL AND ALLIED INDUSTRIES LIMITED**

### **4.14 Injudicious borrowing**

#### **Due to injudicious borrowing of funds, the Company sustained loss of Rs 31.81 lakh.**

With a view to setting up a blood bag project (Project) at an estimated cost of Rs 17.23 crore, the Electro Medical and Allied Industries Limited (Company) received (September 1995 – December 2000) financial assistance of Rs 10 crore from the State Government in the form of equity capital and capital investment subsidy of Rs 1.50 crore from WBIDC<sup>54</sup>. To meet a part of the project cost, the Company raised funds of Rs 10 crore through issue (January - February 2001) of the State Government guaranteed non-convertible taxable bonds, redeemable after seven years under private placement, carrying interest at the rate of 13.5 *per cent* payable half-yearly. Out of the total funds of Rs 21.50 crore received, the Company utilised Rs 17.53 crore for setting up the project in October 2001 and diverted the balance amount of Rs 3.97 crore for meeting the working capital requirement of its existing business activities<sup>55</sup> and meeting interest on bonds thus issued.

The Project commenced production in January 2002. After a lapse of one year, the Company again raised (November 2003) Rupees five crore through issue of State Government guaranteed non-convertible taxable bonds, redeemable after seven years under private placement, with half-yearly interest at the rate of 10 *per cent*. The funds were raised to meet the working capital requirement and 'to meet the cost of balancing equipment for the project'. Yet the details of the balancing equipment were not indicated in the proposal for raising funds through issue of bonds. As the project had commenced

<sup>53</sup> Encashment of LBG – Rs 99.60 lakh plus bank charges - Rs 4.86 lakh less receipt from GI – Rs 5.73 lakh

<sup>54</sup> West Bengal Industrial Development Corporation Limited

<sup>55</sup> Manufacturing of X-ray machines, ECG machines, hearing Aid, Trading of X-ray films, Servicing of Medical equipment

commercial production in January 2002 itself, further borrowing of funds for the project lacked justification.

It was observed that out of the funds of Rupees five crore, the Company utilised (December 2003 – March 2005) Rs 2.20 crore towards payment interest on bonds against the first and second issue (Rs 1.21 crore) and payment to sundry creditors (Rs 99 lakh). The unutilised funds were invested/reinvested (December 2003 - March 2007) in short-term deposits of 181 days at interest rates ranging from 5.25 and 7.5 *per cent per annum* to earn interest of Rs 61.47 lakh. This indicated that the Company injudiciously borrowed excess fund of Rs 2.80 crore, on which it paid interest of Rs 93.28 lakh, thereby sustaining loss of Rs 31.81 lakh.

The matter was reported to the Management and Government (June 2007); their replies had not been received (September 2007).

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

### **4.15 Loss due to injudicious debt-servicing**

**The Company sustained loss of Rs 1.09 crore as it failed to liquidate interest on loans as per contractual rates.**

Rural Electrification Corporation Limited (REC) sanctioned (February/March 2004) a loan of Rs 955.53 crore to the West Bengal Power Development Corporation Limited (Company) for construction of the fifth unit of Santaldih Thermal Power Station (capacity: 250 MW, cost: Rs 1061.70 crore) by 31 March 2007. The loan was repayable in 13 years with a moratorium of three years. The Company was to pay interest quarterly at the rate of 10 *per cent per annum* with rebates of 0.5 *per cent* each for (a) providing default escrow cover, (b) prompt payment by a non-defaulting borrower, (c) reforming states<sup>56</sup> and (d) for timely completion of the project. In case of failure to pay interest in time, the Company was liable to pay penal interest at the 'prevailing rate'. Further, REC could periodically reduce or enhance the rate of interest in respect of instalments of loan disbursed after the date of such revision.

REC released (March 2004) the first instalment of loan of Rs 47.77 crore to the Company at interest rate of 9.5 *per cent per annum* after allowing a rebate of 0.5 *per cent* on the ground that the state of West Bengal had undertaken the power sector reforms. Subsequently, revised the interest rate from time to time and released the subsequent instalments (January 2005 – March 2007) of loan aggregating Rs 528.19 crore at interest rates ranging from 7.75 to 10 *per cent per annum*, without any rebate.

It was observed (April 2007) that against the demand for interest of Rs 3.11 crore on the loan of Rs 47.77 crore payable for the quarters ending

<sup>56</sup> States which had undertaken power sector reform programme are entitled to enjoy rebate of 0.5 *per cent* on interest rate

June, September and December of the year 2004, the Company paid Rs 2.76 crore at the rate of *eight per cent per annum* after considering rebate of two *per cent*<sup>57</sup> instead of the eligible rebate of 0.5 *per cent*. The Company had neither opened the requisite escrow account nor did it pay the entire quarterly demand and the project was under construction. As such, the rebate of 1.5 *per cent* did not accrue to the Company and the payment of interest after considering rebate of 1.5 *per cent* by the Company was not in consonance with the provision of the loan agreement.

Between August 2004 to November 2004, REC repeatedly clarified that except rebate for 'reforming State', the Company was not entitled to other rebates as it did not comply with the conditions. Ultimately, the Company opened the escrow account on 17 December 2004 and was allowed the rebate with effect from 18 December 2004. Thus, due to delay in opening the escrow account for more than eight months, the Company had to forgo rebate of 0.5 *per cent* on interest and had to pay (June 2006) an extra interest of Rs 17.14 lakh for the period from April to December 2004.

Further, against the nine quarterly demand for interest (March 2005-December 2006) aggregating Rs 8.66 crore for the period from January 2005 to December 2006, the Company paid Rs 8.47 crore. The total short payment of interest worked out to Rs 53.79 lakh upto December 2006. Though REC repeatedly reminded (December 2005 - December 2006) the Company for payment of overdue interest to avail rebate of 0.5 *per cent* for 'prompt payment', the Company, despite availability of funds, liquidated the dues only in March 2007. Consequently, the Company not only had to forgo rebate of 0.5 *per cent* totalling Rs 70.61 lakh from April 2004 to March 2007 but also had to pay penal interest of Rs 20.91 lakh for delay in payment of overdue interest.

Thus, due to injudicious decision of not paying the contractual rate of interest in time, the Company sustained loss of Rs 1.09 crore<sup>58</sup>.

The Management / Government stated (June 2007) that there was no loss to the Company as the amount of penal interest would be charged to the project cost and would be capitalised. The contention is not tenable as failure to pay interest at the contractual rates led to payment of penal interest which would overburden the cost of fixed assets. This would ultimately result in inflated tariff rates.

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<sup>57</sup> Out of total rebate (2 *per cent*), 0.5 *per cent* had been allowed because West Bengal is a power sector reform state

<sup>58</sup> Rs 17.14 lakh plus Rs 70.61 lakh plus Rs 20.91 lakh

## WEST BENGAL SCHEDULED CASTES & SCHEDULED TRIBES DEVELOPMENT AND FINANCE CORPORATION

### 4.16 Loss of interest

**The Corporation suffered loss of interest of Rs 1.12 crore due to delay in transferring unutilised funds from savings bank accounts to fixed deposit accounts.**

West Bengal Scheduled Castes & Scheduled Tribes Development and Finance Corporation (Corporation) was established (July 1976) to implement various development and welfare schemes<sup>59</sup> for Scheduled Castes (SC) and Scheduled Tribes (ST) communities. The GoI, State Government and other agencies<sup>60</sup> placed funds with the Corporation for disbursement to the ultimate beneficiaries. These funds were deposited in savings bank (SB) accounts of the Head Office at Kolkata and different District Offices of the Corporation, till disbursement.

With a view to earning more interest than the SB rate, the Board of Directors of the Corporation decided (June 2004) to transfer surplus funds, from SB accounts to *Bonanza/ Flexi-fix* deposit account of respective banks through standing auto-sweep instruction. Accordingly, the following mechanism was evolved with the banks to operate *Bonanza/ Flexi-fix* deposit schemes (Schemes).

- Funds in multiple of Rs 25 lakh would automatically be transferred to such fixed deposit accounts in the banks in Kolkata under the control of Head Office, whereas in case of District Offices the amount was fixed at Rupees two lakh.
- The minimum balance to be maintained in SB account was Rupees five lakh and Rupees two lakh for the Head Office and District Offices respectively.
- The investment was to be made for the period of highest interest rate available on the date of the investment.
- No penal interest would be imposed for premature withdrawal.
- All withdrawals were to be given effect on 'last in first out' method.

<sup>59</sup> Special Component Plan, Tribal Sub-plan, NISFDC and NSKFDC credit linked schemes, National schemes for liberation and rehabilitation of scavenges, community development schemes, educational schemes for Sc & ST etc.

<sup>60</sup> National Schedule Castes and Scheduled Tribes Development Finance corporation, National Safai Karmachari Development and Finance Corporation, Project Officer cum District Welfare Officers, District Magistrates etc.

The Corporation implemented (August 2004) the schemes without tying up with the participating banks at district level. It was only in September 2004, the Head Office instructed (September 2004) the district offices to take action to ensure earning of more interest.

Test check of records of 10 district offices revealed that two<sup>61</sup> district offices had not participated in the scheme at all, while eight<sup>62</sup> offices partly transferred (May – July 2005) unutilised funds from SB accounts to the scheme accounts, after a lapse of eight to ten months from the date of instructions from the Head Office. The reasons for delay were not on record. As a result, monthly unutilised funds ranging from Rs 14 lakh to Rs 11 crore remained parked in the 125 SB accounts of ten district offices. Consequently, the Corporation suffered loss of interest of Rs 1.12 crore<sup>63</sup> from November 2004 to March 2006.

While admitting the facts the Government/ Management stated (June 2007) that many lead banks at district level, where the Corporation had to maintain SB accounts under link bank system, did not introduce similar facilities of *Bonanza/Flexi-Fix* deposits, presumably due to absence of computerised system. The reply is not tenable as the district offices had taken the initiative with the banks to introduce the scheme after delays of eight to ten months from the date of instructions. Further, in test checked districts, although 10 out of 11 lead banks had introduced (May to July 2005) the schemes, the branch offices had not transferred the entire unutilised funds.

## **WEST BENGAL STATE ELECTRICITY BOARD**

### **4.17 Loss due to wrong classification of consumers**

**The Board failed to classify its consumers according to their connected load and nature of business which led to loss of revenue of Rs 3.58 crore.**

(A) As per General Conditions of Supply of Power of the West Bengal State Electricity Board (Board), a consumer having connected load exceeding 50 HP and contract demand of 50 KVA and above falls under the “bulk consumer” category. The tariff rates of ‘bulk consumer’ were higher than that of the “low and medium voltage consumer” (L&MV) having connected load of less than 50 KVA. Therefore, it was imperative for the Board to monitor consumption of power by each L&MV consumer with reference to their connected load so that conversion from L&MV to bulk category could be done immediately, if change in consumption pattern was noticed.

Test check of records of 22 Group Electric Supply (GES) offices of nine distribution divisions<sup>64</sup> of the Board revealed that during April 2000 to March

<sup>61</sup> North-24 Parganas and Hooghly

<sup>62</sup> Pachim Medinipore, Burdwan, Jalpaiguri, Coochbehar, South 24 Parganas, Malda, Dakshin Dinagpur and Howrah.

<sup>63</sup> Considering the difference of rate of interest at the rate 2 per cent per annum at the minimum between SB accounts and fixed deposit accounts

<sup>64</sup> Chandannagar, Bidhanagar-II, Bankura, Arambagn, Barrackpore, Krishnanagaer, Derjeeling ('G' cum 'D'), Burdwan (O &M) and Howrah-I



2007 actual connected load of 45 L&MV consumers varied from 57 HP to 170 HP equivalent to 50 to 149 KVA. Consequently, these consumers were to be classified as bulk consumers for raising bills at higher rates of tariff. But it was noticed that these GES offices did not take any step for conversion of category of above 45 consumers to bulk category and continued to raise bills at L&MV rate of tariff which led to loss of revenue of Rs 2.43 crore upto March 2007. This indicated that classification of consumers according to their connected load was not scrupulously carried out by the GES offices of the Board.

In reply, the Government/ Board stated (July 2007) that overdrawal by the consumers might have occurred due to utilisation of standby motors and unless the overdrawal was a continuous phenomena, the same was not taken into consideration for classification of the category of consumers. The reply is not tenable in view of the fact that the mobilisation of motors whose aggregated load exceeded the contractual load was prohibited under the 'General Conditions of Supply' of the Board and reply is only presumptive.

**(B)** For determining the effective rate of tariff for different non-domestic consumers, the Board clarified in its circular (March 1994) that consumer utilising power for running poultry farms/ hatcheries, petrol pump, cow sheds, printing press, industrial training centre, private schools, food processing units etc. were to be classified as 'commercial category'. The commercial rate of tariff was higher than 'industrial' and 'public utility' category.

Scrutiny of records for the period from April 2004 to January 2007 of two Distribution circles and six GES offices under four Divisions<sup>65</sup> revealed that 38 consumers who were operating hatcheries, petrol pumps, private schools, cow sheds, printing press, cinema halls etc. had been classified as 'industrial' or 'public utility' category in violation of the circular, *ibid*. It was, however, noticed that out of 38 consumers only three<sup>66</sup> consumers were converted to 'commercial' category between September 2004 to November 2006. But GES office had not raised supplementary bills for differential rates of tariff of Rs 59.51 lakh in respect of these three converted consumers so far (September 2007). Further, no steps were taken to convert balance 35 consumers to 'commercial category' which resulted in under billing of revenue of Rs 55.20 lakh till March 2007.

While accepting the observation, the Board/ Government stated (July 2007) that they had adopted the suggestion put forward by Audit and after due examination in each case, 14 consumers had been converted into commercial category and realisation of arrears were under process. The fact, however, remains that 24 out of 38 consumers had not yet been converted into commercial category and recovery of arrears was not effected (September 2007).

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<sup>65</sup> Nadia and Burdwan 'D' circles; Krishnanagar, Garia, Barrackpore, Siliguri (O&M) distribution divisions.

<sup>66</sup> Departmental training unit of BSNL, Power Grid Corporation India Limited and Uttar Publication Private Limited under Nadia and Burdwan 'D' circle respectively.

Thus, due to wrong classification of consumers according to their connected load and nature of business, the Board suffered loss of revenue of Rs 3.58 crore.

#### **4.18 Undue benefit to a consumer**

**The Board allowed undue benefit of Rs 2.50 crore to a consumer on account of excess concession due to wrong computation of the concession.**

Under the West Bengal Incentive Scheme 1999 (Scheme), the Board<sup>67</sup> notified (April 2001) that the existing industrial consumers with high tension connections, which had undertaken expansion of capacity for additional production, would be entitled to concession on energy charges on additional consumption attributable to expansion of capacity, for a period of six years from the date of expansion. To be eligible for such concession, energy charges should increase by a minimum of 25 *per cent* over the average monthly consumption of energy in any consecutive twelve months during the preceding three years.

Hindusthan National Glass and Industries Limited (HNGIL) with an existing contract demand of 6,000 KVA approached (December 2000) the Board for enhancement of contract demand owing to expansion of their production capacity, initially to 7,000 KVA and thereafter to 9,000 KVA. After due formalities, the Board signed (January 2001) an agreement with HNGIL to give effect to the enhancement of contact demand to 7,000 KVA with effect from March 2001 and signed (December 2003) another agreement for enhancement of contact demand to 9,000 KVA effective from May 2004. As per the scheme, HNGIL was entitled to concessional tariff from March 2001.

It was noticed that between April 2001 and June 2004, the Board allowed concession of Rs 4.84 crore to HNGIL on the basis of increased energy consumption (57.40 million units), without arriving at the additional consumption attributable to the incremental load (24.96 million units) for expansion of plant and machinery. Instead, the Board deducted the value of 23.50 lakh units being the monthly average consumption of preceding three years prior to March 2001 as base consumption from the monthly energy bills from April 2001 onwards.

It was further noticed (May 2006) that while computing average consumption for preceding 36 months (23.50 lakh units), the Board did not consider the low monthly load factor of 23 to 68 *per cent* indicating below capacity operation by HNGIL. In the absence of separate sub-meters to record the additional consumption arising from expansion of plant capacity, the Board should have apportioned the increase in energy consumption proportionately between original and additional contract demand. At even 100 *per cent* load factor of the expanded capacity, the consumption of power would have been 30.37 million units against concession allowed for 57.40 million units. But, the Board did not follow this procedure and instead, it reckoned the entire increase in energy consumption beyond 23.50 lakh units as arising from

<sup>67</sup> Now West Bengal State Electricity Distribution Company Limited

expansion of capacity. Consequently, the load attributable to original contract demand was clubbed with the increase in contract demand leading to unrealistic load factor<sup>68</sup> ranging from 141 to 323 *per cent* in respect of additional contract demand instead of 64 to 92 *per cent*. Load factor beyond 100 *per cent* is unrealistic as even if all the connected plant, machinery and electrical equipment were operated concurrently, it would aggregate to full contractual load *i.e.* load factor of 100 *per cent*.

Thus, due to computation of unrealistic additional consumption of energy for expansion of the plant and machinery the Board allowed undue concession of Rs 4.84 crore towards the increased energy consumption for 24.96 million units from April 2001 to June 2004, against the admissible concession of Rs 2.34 crore, thereby leading to loss of revenue of Rs 2.50 crore.

The Government / Board stated (June 2007) that the Board had not suffered any loss on this account as it strictly followed the methodology of tariff order applicable to concessional power tariff and there was no provision in the order to compute additional consumption attributable to the incremental load.

The contention is not acceptable since (i) the tariff order clearly envisaged that the consumer would be entitled to concession only for additional consumption arising from expansion of the plant and machineries, and (ii) as the Board did not measure the incremental consumption for the expanded capacity separately, it should have apportioned the actual consumption on the basis of maximum demand recorded in a month to see whether the consumer was eligible for concession for achieving 25 *per cent* increase in consumption and then the extent of consumption eligible for concession should have been determined. But the Board's failure to comply with these procedures resulted in a loss of Rs 2.50 crore to it.

#### **4.19 Excess benefit to consumers**

**Between July 2004 and December 2006, the Board allowed excess load factor rebate of Rs 8.92 crore to five high voltage and extra high voltage consumers by incorrectly computing the load factor on lower maximum demand instead of higher contractual demand.**

The Board supplies power to high (HV) and extra high voltage (EHV) consumers, who are entitled<sup>69</sup> to receive power supply up to but not exceeding the monthly contract demand (CD) or sanctioned load applicable for the relevant year as specified in the supply agreements. These consumers are liable to pay minimum charges to the Board based on the CD. If the

<sup>68</sup> Load factor for a consumer is the ratio of actual energy consumed to the energy that would have been consumed had the consumer operated all connected plant, machinery and electrical equipment for 24 hours in a day throughout the entire month.

<sup>69</sup> Clause 3 of Standard Agreement for the supply of electrical energy at extra high/ high voltage & Schedule-I of the Agreement (Form WBSEB-11A)

maximum demand actually recorded during a month exceeds the monthly CD applicable for that year, then such maximum demand would be treated as the monthly CD for that year on which minimum charges was to be levied by the Board. Further, according to the 'General Conditions of Supply'<sup>70</sup> of the Board, the demand of a consumer would be higher of CD or maximum demand (MD) recorded.

The West Bengal Electricity Regulatory Commission (WBERC) had provided (June 2004) in their tariff order that the Board was to allow a rebate or recover a surcharge on monthly energy bills from HV/EHV consumers. The rebate/surcharge would vary according to the load factor (LF)<sup>71</sup> of the consumer for the month. Although CD exceeded MD, the Board had computed LF on the basis of MD instead of CD since WBERC had not specified the basis of computation of LF. Moreover, as WBERC's subsequent tariff orders also did not specify the method of computation, the Board continued to determine load factor on the basis of the lower MD. Consequently, the LF as computed by the Board was higher than the actual LF leading to excess rebate.

It was noticed that, for the purpose of determination of incentive, the Orissa Electricity Regulatory Commission had defined (January 2001) and reiterated (April 2005) LF as the ratio of total number of units actually consumed during a given period to the total number of units that would have actually been consumed had the consumer maintained the higher of the CD or the MD recorded throughout the entire period indicated. Similarly, the Maharashtra Electricity Regulatory Commission (MERC) had also defined (December 2003/ September 2004) LF as the ratio of total number of units consumed during a given period to the total number of units which would have been consumed, had the CD/ sanctioned load been maintained throughout the period, subject to availability of supply from the distribution licensee and the LF shall usually be expressed as a percentage.

Scrutiny of five<sup>72</sup> HV/ EHV centralised bulk consumers with contractual demand/ sanctioned load of 9,000 to 29,000 KVA revealed that by determining LF on the basis of MD recorded during each month instead of CD, the Board had allowed (July 2004 – December 2006) excess LF rebate aggregating to Rs 8.92<sup>73</sup> crore.

The Government/ Board stated (June 2007) that since WBERC upheld the Board's basis of computation of load factor in respect of a dispute with a consumer regarding LF calculation, the definition of MERC was not

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<sup>70</sup> Issued in 1997, Clauses 22(G)

<sup>71</sup> Load factor is the ratio of actual consumption during a month (in MUs) to the maximum consumption possible during the said month (in MUs) which is the product of contract demand/ sanctioned load (in KVA), actual power factor recorded and total number of hours during the month less load shedding hours

<sup>72</sup> Modern India Concast Limited, Bishnupur (132 KV – 10,500 KVA); Vasavi Industries Limited, Bishnupur (132 KV – 29,000 KVA); Indian Rayon & Industries, Rishra (132 KV – 13,000 KVA); Hindustan Glass & Industries Limited, Rishra (33 KV – 9,000 KVA); South Eastern Railway Workshop, Kharagpur (33 KV – 13,000 KVA)

<sup>73</sup> Without adjusting for interruption hours or hours during which power could not be supplied by the Board

applicable. The contention is not tenable since the Board's dispute with its consumer related to non-consideration of interruption period for computation of LF. According to WBERC (October 2006), LF for the purpose of calculating the rebate and surcharge is related to the entire billing period and not on the basis of hours of supply since in terms of the tariff order, a consumer was exempted from payment of demand charge for non-supply of power by the Board.

Moreover, the CD represents the power that will be required by consumers operating at full load i.e. 100 *per cent*, for which the Board had the requisite facility that remained unutilised since the consumers had not operated at full load. Further, both the agreement and the general conditions of supply specified that the higher of CD or MD would be the basis for determination of minimum charges.

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

##### ***Outstanding departmental replies on paragraphs appearing in the Audit Reports***

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

Though the Audit Reports for the years 1998-99, 1999-2000, 2000-01, 2002-03, 2003-04 2004-05 and 2005-06 were presented to the State Legislature in July 2000, July 2001, March 2002, August 2004, August 2005, July 2006 and March 2007 respectively, 19 departments, whose activities were commented upon did not submit their explanatory notes on 55 out of 180 paragraphs/ reviews as of June 2007, as indicated in **Annexure-19**. It would be seen from the annexure that the departments largely responsible for non-submission of explanatory notes were Public Enterprises, Power, Commerce and Industries, Finance, Food and Supplies and Information Technology. The State Government did not respond to even paragraphs / reviews highlighting important issues like misappropriation, fraud, system failure, mismanagement, non-adherence to extant provisions, etc.

***Outstanding compliance to the Reports of the Committee of Public Undertakings (COPU)***

Reports of the COPU presented to the Legislature contain recommendations and observations on which administrative departments are required to submit their Action Taken Notes (ATNs) within six weeks from the date of receipt of COPU recommendations. Even after the lapse of three to 96 months, five departments did not furnish the ATNs on 52 recommendations relating to eight COPU Reports presented (June 1999 - March 2007) in the State Legislature (**Annexure-20**).

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

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

The Inspection Reports issued up to March 2007 pertaining to 47 PSUs disclosed that 267 paragraphs relating to 135 IRs involving monetary value of Rs 1,915.44 crore remained outstanding at the end of June 2007, of which 52 IRs containing 70 paragraphs had not been replied to, though more than two years had elapsed. Even the initial replies were not received in respect of 73 paragraphs of 16 PSUs. The department-wise break up of IRs and audit observations as of June 2007 is given in **Annexure-21**. In order to expedite settlement of the outstanding paragraphs, Audit Committees were constituted in 15 out of 21 departments. These committees settled 107 paragraphs in 31 meetings during 1997-2007. This is indicative of inadequacy of efforts by the executive/ administrative departments to ensure accountability.

Similarly, the draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the administrative department concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. It was, however, noticed the 17 draft paragraphs and three draft performance audit reviews forwarded to the various departments during May to August 2007, as detailed in **Annexure-22** had not been replied, so far (September 2007).

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

**KOLKATA**  
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