

CHAPTER IV

4 Miscellaneous topics of interest relating to Government companies and Statutory corporations

4A Government companies

4A.1 SARASWATY PRESS LIMITED

4A.1.1 Loss due to defective agreement and poor production planning

Failure to negotiate the terms and conditions of the agreement and delay in printing and delivery of telephone directory, the Company suffered a loss of Rs 0.72 crore against an anticipated contribution of Rs 1.27 crore

Delay in printing of telephone directory resulted in a loss of Rs 0.72 crore

In October 1999, Saraswaty Press Limited (Company) entered into an agreement with Calcutta Telephones (CT) for printing and supply of 10 lakh sets of Calcutta Telephone Directory – 1999 (2 volumes) at a total firm price of Rs 12.93 crore (Rs 129.30 per set). In terms of the agreement, the delivery was to be completed within three months from the date of approval of specimen copy of the Directory. In case of delay, the Company was liable to pay a penalty upto a maximum limit of 5 per cent of the contract price.

It was noticed in audit that against an anticipated positive contribution of Rs 1.99 crore on execution of the entire job, the Company actually sustained a loss of Rs 0.72 crore on printing and supply of only 6 lakh sets of directories due to the following reasons :

(a) The printing of directory was dependent on receipt of input on subscribers' data from CT. However, the agreement did not specifically mention the date by which the complete data would be made available by CT to the Company. The Company anticipated the receipt of subscribers' data by middle of November 1999 and accordingly had drawn the production plan so as to complete the delivery between December 1999 and March 2000. The Company also availed (January 2000) a working capital loan of Rs 4.00 crore from United Bank of India at the rate of interest of 16.50 per cent per annum for procurement of 1512.58 MT paper during October 1999 and March 2000 at a cost of Rs 4.02 crore. For the purpose of printing of directory the Company also procured high speed offset 'GOSS' machine at a cost of Rs 0.54crore.

(b) CT delivered the input subscribers' data between January and March 2000 and approved the specimen copy of the directory on 28 March 2000.

Thus, the Company was to complete the printing and delivery of 10 lakh sets of directory by June 2000. The Company delivered only 6 lakh sets between April 2000 and January 2001 due to delayed receipt of input data from CT, huge idle hours (44 per cent of available hours), industrial relation problem regarding deployment of manpower in the GOSS machine, printing of ballot papers for Bihar General Election 2000 etc. As the Company failed to adhere to the time schedule CT deducted Rs 0.39 crore from the Company towards penalty and foreclosed (February 2001) the contract for supply of balance 4 lakh sets of directory.

(c) Against the estimated contribution of Rs 1.27* crore on printing and delivery of 6 lakh sets of directory, the Company sustained a negative contribution of Rs 1.99 crore (including penalty deducted by CT of Rs 0.39 crore). Scrutiny of records relating to cost estimates vis-a-vis actual expenditure revealed that the following controllable factors were responsible for the spiralling cost :

(i) Failure to estimate the landed cost of paper leading to lower estimates of Rs 1307 per MT resulting in excess expenditure of Rs 28 lakh on purchase of 2122.545 MT paper.

(ii) Against the estimated wastage of paper (94.74 MT) at 5 per cent, the actual wastage of paper was higher at 12.02 per cent. The excess wastage was 227.81 MT valuing Rs 43 lakh due to wrong selection of quality of paper, short run, reprinting of misplaced pages etc. This also led to excess consumption of ink valued at Rs 9 lakh.

(iii) Details of reasons for excess paper consumption of Rs 29 lakh could not be analysed in audit in absence of records.

(iv) Excess expenditure towards interest on bank loan of Rs 46 lakh due to delay in execution of work.

(v) Time overrun of 4382 hours for 'printing of text' attributable to print re-run, labour unrest, poor production scheduling etc. leading to excess cost of Rs 25 lakh

(vi) There was a saving of Rs 19 lakh towards binding and delivery charges due to utilisation of lesser time for binding and favourable rate difference.

Thus, failure of the Company to negotiate terms and conditions to protect its interest, adoption of *ad hoc* approach to costing and delay in printing resulted in a loss of Rs 0.72 crore to the Company against the expected contribution of Rs 1.27 crore.

The Government stated (September 2002) that the Company had identified all procedural lapses and taken necessary measures to prevent the recurrence of such losses in the future.

* Anticipated sales proceeds of Rs 7.76 crore and estimated cost of Rs 6.49 crore.

4A.2 NATIONAL IRON & STEEL CO.(1984) LIMITED

4A.2.1 Payment of demand charges for electricity at penal rate

The Company exceeded the contractual monthly demand of power and paid avoidable demand charges of Rs 27.06 lakh at penal rate due to failure to enhance demand before commissioning of the bar mill

The Company reduced (July 1995) its contractual monthly demand for power from West Bengal State Electricity Board (WBSEB) to 750 KVA as one electric arc furnace was scrapped and the remaining two operated irregularly. In January 1999, the Company appointed Steel Authority of India Limited as consultant for designing, erecting and commissioning a new bar mill of 30,000 MT capacity *per annum*. In the event of load exceeding the contractual demand, demand charges would be levied at penal rate. The Company communicated (December 1999) the need for enhancing demand for power to WBSEB in terms of the agreement. WBSEB sought (January 2000) details about additional load, which the Company furnished in August 2001 after a delay of 19 months.

The bar mill was commissioned in November 2000 and the increased load ranged between 1080 and 1980 KVA. Since the Company failed to enhance the contractual load, WBSEB raised demand charges on the excess load at penal rates. As a result, the Company paid penal demand charges of Rs 27.06 lakh despite appointing a part-time electrical expert in June 2000 to take charge of the commissioning of the mill with all electrical controls and equipment. The management stated (December 2001) that the reason for not enhancing the contractual demand was to study the actual demand pattern and to consider the benefit to be derived from power factor correction equipment to be commissioned by February 2001. The reply is not tenable as the Company failed to furnish the requisite information to WBSEB in time. Moreover, the agreement also provided for cancelling the existing agreement by mutual consent and entering into a fresh agreement thereafter.

Thus, failure of the Company to assess and intimate requirement of additional demand to WBSEB in time and to synchronise installation of power factor correction equipment with the installation of new mill resulted in a loss of Rs 27.06 lakh towards penal demand charges. Further, though the Company entered into a revised agreement with WBSEB in April 2002, the same was not effective due to its failure to submit requisite bank guarantee to WBSEB so far (September 2002), saddling the Company with recurring liability towards penal charges.

While accepting the fact the Government stated (April 2002) that the management had been advised to take all precautions to avoid recurrence of such eventuality in future.

4A.3 DURGAPUR CHEMICALS LIMITED

4A.3.1 Loss due to under insurance

The Company suffered a loss of Rs 36.12 lakh due to under insurance of its Caustic Chlorine Plant

Durgapur Chemicals Limited (Company) took (July 1999) a fire policy from the New India Assurance Company Limited (NIA) to cover the risk of fire, lightning, explosion etc. for its Caustic Chlorine Plant (CCP) at an assured value of Rs 8.60 crore with an annual premium of Rs 1.92 lakh. The insurance coverage was for one year from 16 July 1999 to 15 July 2000.

Scrutiny of the records revealed (March 2002) that an explosion occurred on 03 March 2000 in the chlorine section of the CCP leading to severe damage to the equipment. After assessment of damage, the Company lodged a claim of Rs 1.01 crore with NIA on 16 March 2002. The surveyor of NIA assessed (May 2000) the loss at Rs 63.70 lakh after deducting the salvage value. However, NIA reduced (May 2000) the claim to Rs 26.90 lakh as the Company under-insured the CCP by Rs 11.67 crore (58 *per cent*). It was observed that the Company would have paid only Rs 0.68 lakh more, had the Company taken insurance coverage for the under-insured part of the CCP.

Thus, due to under insurance, the Company suffered a loss of Rs 36.12 lakh (after deduction of Rs 0.68 lakh towards under insurance premium from total loss of Rs 36.80 lakh).

While accepting the loss the management stated (June 2002) that the Company decided to cover risk of entire plant for a sum insured at a value of Rs 21.04 crore (including for CCP at Rs 8.60 crore) to reduce the financial liability towards insurance premium. However, the fact remains that the Company could have avoided the loss of Rs 36.12 lakh by way of paying additional premium of only Rs 0.68 lakh.

The matter was reported to the Government (April 2002); their reply had not been received so far (September 2002).

4B Statutory corporations

4B.1 WEST BENGAL STATE ELECTRICITY BOARD

4B.1.1 Undue favour to CESC Limited

The Government/Board extended undue favour to CESC Limited in payment of dues to the Board and consequently the Board had to suffer a loss of Rs 204.69 crore

CESC Limited (CESC), a Company in the private sector is a licensee of the State Government for generation and supply of power in the metropolitan

areas of Kolkata and Howrah. In terms of the agreement (May 1965), the Board had been supplying power to CESC at the rates periodically approved by the State Government. The agreement was revised from time to time, last being in July 2002.

As of June 2002, the outstanding dues recoverable from CESC stood at Rs 750.88 crore representing 81 *per cent* of total amount recoverable by the Board.

Scrutiny of records revealed the following points :

(a) While paying the monthly energy bills, CESC disputed the tariff rates approved by the State Government and deducted a part of dues. This led to accumulation of outstanding dues from Rs 5.56 crore in November 1995 to Rs 783.82 crore in December 2000. Apart from this, Rs 182.88 crore became payable as 'late payment surcharge' (LPSC) up to December 2000 by CESC.

As CESC was a regular defaulter in payment of dues, the Board approached the State Government from time to time (January 1998/ March 1999/ November 2000) for amending the license of CESC by withdrawing western side of Hooghly river from the command area of CESC to enable the Board to take over the infrastructure from CESC in lieu of its dues. However, the State Government did not respond.

The State Government waived dues of Rs 197.15 crore payable by CESC to the Board

However, the Government, *suo-motu*, issued (February 2001) an order allowing CESC to liquidate its dues to the Board in instalments by March 2006 without payment of interest (Rs 75.02 crore) and waived Rs 12.41 crore payable against annual minimum charges for 1999-2000. The Government also agreed to waive 60 *per cent* of LPSC dues i.e. Rs 109.72 crore. The rationale of extending such undue favour to a private licensee at the cost of financial interest of the Board lacked justification.

The State Government stated (October 2002) that these measures were taken to safeguard the interest of the consumers and ensure realisation of dues from CESC. The reply is not tenable as CESC failed to clear the dues even after waiver of Rs 197.15 crore.

Imposition of power restriction on CESC led to loss of revenue of Rs 7.54 crore

(b) CESC failed to pay the current dues in full as well as the arrears as per the Government's schedule. As a result, the Board imposed power restriction of 40.089 MU (valued at Rs 7.54 crore) from 04 to 22 January 2002. Though the restriction was withdrawn (23 January 2002) on commitment of clearing the dues, CESC again defaulted in payment of Rs 66.65 crore as per schedule.

The Government stated (October 2002) that power restriction was imposed as a last resort measure since realisation of revenue from CESC was absolutely uncertain.

Thus, due to undue patronage to CESC by the State Government, the Board had to sustain loss of Rs 204.69 crore owing to foregone annual minimum charges (Rs 12.41 crore), re-scheduling of payment of dues without interest (Rs 75.02 crore), waiver of LPSC (Rs 109.72 crore) and loss of potential revenue due to power restriction (Rs 7.54 crore).

4B.1.2 Avoidable payment of interest on working capital demand loan

The Board availed working capital demand loan of Rs 17.94 crore between April 1999 and March 2001 despite availability of favourable cash balances of Rs 20.66 crore to 125.08 crore in cash credit account and paid avoidable interest of Rs 6.82 crore

West Bengal State Electricity Board (Board) obtained (April 1989) cash credit facility aggregating Rs 30.50 crore from six[©] banks. Subsequently, the cash credit facility was bifurcated (July 1995) into working capital demand loan (WCDL) and cash credit component, the proportion being periodically revised, in accordance with the guidelines of the Reserve Bank of India. While WCDL, being a temporary loan, is always interest bearing, the cash credit component carries interest on overdraft balances but does not earn interest on surplus balances.

Slack cash management led to avoidable payment of interest of Rs 6.82 crore on loan

To avoid excess financing, the Board is to determine the eligible working capital requirement on a quarterly basis to fix the operative limits for cash credit and WCDL. It is imperative that the Board correctly determine the requirement of cash credit and WCDL to minimise or obviate payment towards interest on cash credit and WCDL. Accordingly, from time to time the Board reduced the cash credit and WCDL limits which was Rs 6.11 crore and Rs 20.50 crore respectively in April 1998.

During all eight quarters between April 1999 and March 2001, the Board had indicated cash credit and WCDL requirement of Rs 30.50 crore against which it availed only Rs 17.94 crore by way of WCDL. No cash credit was availed. The Board paid interest of Rs 6.82 crore on the WCDL availed between April 1999 and August 2001.

It was noticed (June 2002) in audit that between March 1999 and September 2001, the Board held aggregate favourable cash balances ranging from Rs 25.66 crore to Rs 125.08 crore at the end of each month in the cash credit accounts. Yet, the Board failed to consider it while determining the working capital requirement. The Board observed (September 2001) that cash credit facility was not utilised mainly due to the higher rate of interest. Ultimately, in August 2001, the Board repaid the WCDL of Rs 17.94 crore.

Had the Board correctly assessed the requirement of working capital after considering the favourable cash balances available in the cash credit account during March 1999 to June 2001, the Board could have repaid the WCDL in March 1999 itself and thereby the Board could have avoided the payment of interest of Rs 6.82 crore.

The Government stated (August 2002) that the details have been rightly depicted and funds lying in the cash credit related to capital works. The Board runs on cash deficit and cash surplus is required to be maintained to make regular payments.

[©] UCO Bank, Head office, State Bank of India- Middleton Row (SBI), United Bank of India-Park Street (UBI), Central Bank of India-Red Cross Place (CBI), Punjab National Bank-Salt Lake (PNB), West Bengal State Co-operative Bank, Head office (WBSCB)

The reply is not tenable since a) ultimately the Board repaid the WCDL with funds relating to capital works and b) even after repayment of WCDL there was surplus cash available.

4B.1.3 Injudicious supply of power

Supply of Power without obtaining security deposit and unauthorised extension of concession on energy charges resulted in a loss of Rs 1.63 crore to the Board

The Board continued to supply power to a sick private party without obtaining security deposit leading to a loss of Rs 1.63 crore

In terms of an agreement (May 1996), West Bengal State Electricity Board (Board) effected supply of power to Assam Tubes Ltd., Sreerampur, Hooghly (Consumer) with effect from 14 August 1997 against the contract demand of 8500 KVA. The consumer was entitled to a concession of 30 *per cent* on the total energy charges for a period of three years upto 13 August 2000, on submission of the requisite eligibility certificate*. The consumer submitted the eligibility certificate in May 1997. The consumer also submitted in July 1997 a bank guarantee (BG) for Rs 1.41 crore as security deposit which was valid up to 14 July 2000.

Scrutiny of the records in audit revealed (January 2002) that the Board approached (May/ June 2000) the consumer to renew the BG for Rs 1.41 crore before expiry of the validity period in July 2000. However, in view of its sickness and registration (January 2000) with the Board for Industrial & Financial Reconstruction (BIFR), the consumer requested (June 2000) the Board to reduce its contract demand to 5000 KVA from July 2000 for the next five years without submitting the requisite six months' notice to the Board for such reduction and also to accept security deposit (Rs 1.19 crore) for reduced demand in 24 instalments.

Further, the consumer approached (June 2000) the Board to allow concession of 30 *per cent* on energy charges, for a further period of three years after expiry of existing concession period on 13 August 2000. However, in view of risk of supplying power to a sick unit for two years without security deposit and the request for extension of further concession for another three years without any approved BIFR revival scheme, Member (Finance & Accounts) ordered on 29 July 2000 to discontinue supply of power to safeguard Board's interest.

It was seen in audit that Chief Engineer (Commercial) did not disconnect the consumer and instead CE continued supply of power valuing Rs 1.63 crore without obtaining security deposit till 20 November 2000 when power supply was disconnected. Further, three cheques of Rs 0.54 crore drawn on 20 November 2000 by the consumer were also dishonoured by banks. The Board's claim to invoke the BG of Rs 1.41 crore in order to recover the dues was also rejected (August 2001 and December 2001) by the bank and the office of the Banking Ombudsman on the ground that the dues were not

* A certificate from West Bengal Industrial Development Corporation Limited to the effect that WBIDC had not sanctioned any subsidy to ATL on purchase and installation of captive generator set under West Bengal Incentive Scheme 1993

related to the guarantee period of three years from 14 July 1997 to 14 July 2000.

Thus, supply of power without security and extension of concession to a sick unit, in violation of Member (Finance & Accounts)'s order, resulted in a loss of Rs 1.63 crore to the Board. The matter needs investigation to fix responsibility.

While accepting the facts the Government/ Board stated (April 2002) that legal action was under contemplation against the consumer. Further developments were, however, awaited (September 2002).

4B.1.4 Loss of revenue and payment of penal interest

The Board sustained a loss of Rs 5.57 crore due to its failure to raise the supplementary bill in line with the directives of JCEI

The Board had been supplying power from its 132/33 KV sub-station, Rishra, through a 33 KV line to the factories of Orient Steel and Industries Limited (OSIL), Sheoraphully and two other industries, all producing steel products from scrap steel.

On 03 October 1994, the central checking squad of the Board detected tampering with the metering installations in the premises of OSIL leading to pilferage of energy. Accordingly, the Board lodged an FIR with the local police and served (October 1994) a disconnection notice against which OSIL filed (October 1994) a writ petition with the Hon'ble High Court, Kolkata. The Board raised (03 October 1996) a supplementary bill for Rs 2.81 crore (21.322⁶ Mkw) for the period from April 1986 to March 1995 on the basis of average power consumption of 774.56 Kwh per tonne for manufacture of different categories of steel products, computed from the consumption recorded in the check meter.

The Hon'ble High Court observed (04 October 1996) that the fact of pilferage was not disputed and directed OSIL to pay Rs 7.00 lakh per month. Further, the Hon'ble Court referred the case to the Chief Electrical Inspector (CEI), West Bengal to assess the quantum of energy pilfered. In case the CEI decided in favour of OSIL, the Board would refund the amount to OSIL along with interest or in the event of an adverse decision, OSIL would continue to pay the amount in instalments. Accordingly, OSIL deposited Rs 0.77 crore during October 1996 to August 1997.

The Joint Chief Electrical Inspector (JCEI) examined (November 1996 - September 1997) the case and accordingly, directed (September 1997) the Board to revise the bill. As per directive of JCEI, the additional quantum of energy to be billed was 39.406⁶ Mkw working out to Rs 5.07 crore against which Board had raised supplementary bill of Rs 2.81 crore for 21.322 Mkw.

⁶ Estimated consumption of 78.978 Mkw less consumption of 57.56 Mkw already billed as per the tampered meter

⁶ 97.062 Mkw less 57.656 Mkw

The Board failed to understand JCEI's order and proceeded on the assumption that JCEI had determined energy consumption at 56.866 Mkwh which was less than the consumption of 57.656 Mkwh originally metered. It was noticed (December 2001) in audit that the Board had ignored the energy requirement of 670 kwh per tonne for conversion of scrap to ingots while computing the energy consumption of 115 kwh per tonne of rolled steel products manufactured from ingots.

Though the verdict was apparently in the Board's favour and JCEI was the sole authority for settling the disputes concerning meters in terms of Section 26 of Indian Electricity Act, 1910, the Board filed an appeal against the order of JCEI, before the Appellate Authority viz. the State Government, contending that the aggregate consumption computed as per norms determined by JCEI was lower than that recorded by the tampered meter at OSIL. The Appellate Authority rejected (November 1998) the appeal as the Board failed to make out a case. Due to delay in implementation of the verdict of JCEI, OSIL filed a contempt petition (CR2828 of 1999) which was disposed of (June 2000) by the Hon'ble High Court, Kolkata directing the Board to refund the amount deposited by the consumer along with interest within two weeks. Accordingly, the Board refunded Rs 0.77 crore to OSIL and also paid interest of Rs 0.50 crore at 24.33 *per cent* per annum by way of adjustment (May 2001) of energy bills for the period from September 1999 to February 2000.

Thus, due to Board's failure to revise the supplementary bill despite favourable verdict from JCEI, the Board sustained a loss of Rs 5.57 crore towards revenue foregone (Rs 5.07 crore) and avoidable payment of interest (Rs 0.50 crore). This could have been avoided had the Board revised the supplementary bill in accordance with direction of JCEI. No responsibility was fixed.

The Government stated (September 2002) that the total consumption of 56.866 Mkwh computed as per norms given by JCEI was lower than 57.656 Mkwh recorded in the meter of OSIL. The reply is not tenable since consumption of energy on rolled products was worked out by the Board at 115 kwh per tonne for conversion of ingots to rolled products, ignoring the consumption at 670 kwh per tonne for producing ingots from scrap steel. Moreover, the Board failed to bring to the notice of the State Government the consumption recorded in the check meter on the basis of which supplementary bill was raised.

4B.1.5 Undue preference to a contractor leading to a loss of potential revenue

The contractor who was unduly preferred while placing order for repair work failed to complete the repair work in time leading to a loss of potential revenue of Rs 1.02 crore

With a view to undertaking major repair and overhauling of Unit-5 (Stage-II) of Jaldhaka Hydel Project (JHP) within 45 days (including extra works), the Board invited (July 1998) limited tenders from seven firms.

Delay in completion of repair works of a hydel unit resulted in loss of revenue of Rs 1.02 crore

Out of two technically valid offers received (August 1998), the lowest offer received from Power Max (Electricals) Pvt. Limited (PMPL), Kolkata at Rs 11.98 lakh^r indicated completion period as 51 days, while the second lowest offer (Rs 26.70 lakh) received from Shri Sarvana Enterprise (SSE), Madurai provided for completion of work by 45 days. As the loss of generation was involved beyond the specified time period (45 days), the offer of PMPL was loaded with the value of loss of generation of Rs 3.11 lakh (@ Rs 0.52 lakh per day) for additional six days based on 36 *per cent* Plant Load Factor (PLF) of JHP for 1997-98 and the same stood lowest. Accordingly the Divisional Engineer (Mechanical) proposed (September 1998) to place the order on PMPL. However, without placing the order on PMPL, the Chief Engineer (Hydel) further evaluated (October 1998) two offers by loading loss of generation at 100 *per cent* PLF. As a result, the quoted rate (Rs 26.70 lakh) of SSE became the lowest.

On negotiation, SSE reduced (November 1998) the rate to Rs 20.03 lakh and the Board placed the letter of intent (LOI) on SSE in December 1998 at a price of Rs 20.03 lakh, which was higher by Rs 4.67 lakh^v with reference to the quoted rate of PMPL. According to the terms of the LOI, SSE was scheduled to complete the work including extra work, if any, within 45 days from the date of handing over the site and in case of delay SSE was liable to pay liquidated damages up to 5 *per cent* of the ordered value.

The Unit was handed over to the SSE on 06 January 1999 after shut down on 28 December 1998. After assessment of damages on joint inspection (12 January 1999) of the dismantled turbine components, SSE submitted a quotation on 24 January 1999 for undertaking the extra work at Rs 12.75 lakh which was reduced to Rs 11.16 lakh. Meanwhile, SSE carried out the extra work and the Board accepted the revised rate as *fait accompli* only in January 2000.

It was noticed that SSE completed the work after a delay of 121 days from the date of scheduled period of completion (19 February 1999) and the Unit was recommissioned only on 21 June 1999.

The Board had awarded the work to SSE giving high consideration to the time of completion (45 days). However, as SSE delayed the completion by 121 days (delay time itself being 275 *per cent* of the time provided in offer) the very objective of placing the LOI on SSE was defeated and the Board sustained a loss of generation of 4.18 MU for 121 days at 36 *per cent* PLF due to failure of SSE to complete the work in time with consequential loss of potential revenue of Rs 1.02 crore and Rs 3.76 lakh to the public exchequer towards electricity duty.

The Government/ Board stated (July 2002) that generation of stage-II Power House during February to June 1999 was 8.49 MU as against 28.37 MU of stage-I and as such there was practically no loss on account of hydel potential had this machine been brought back earlier. The contention is not acceptable.

^r excluding the rate for item No. 9 of the tender for repairing the francis runner for which rate would be finalised after dismantling the unit

^v Rate of M/S SSE-Rs 20.03 lakh minus rate for item No. 9 for which M/S PMPL did not submit the rate (Rs 3.38 lakh) minus rate of M/S PMPL Rs 11.98 lakh

While rejecting the offer of PMPL, loss of generation was considered at 100 *per cent* PLF during the period of shutdown of the unit. The loss of generation due to belated commissioning of the unit was worked out in audit based on the PLF at 36 *per cent* actually achieved by the unit before shutdown.

4B.1.6 Extra expenditure towards water cess at penal rate

Failure to adhere to the pollution control norms resulted in extra expenditure of Rs 1.03 crore towards cess

Failure to comply with pollution control norms led to avoidable payment of cess of Rs 1.03 crore

Under the Water (Prevention and Control of Pollution) Cess Act, 1977 and the Water (Prevention and Control) Cess Rules 1978, West Bengal State Electricity Board (Board) was required to pay water cess for utilisation of water from Hooghly river at its Bandel Thermal Power Station (BTPS) within 30 days from the date of the assessment order. Under the Rules, *ibid*, the West Bengal Pollution Control Board (WBPCB) was authorised to assess the cess on the basis of return submitted by the Board. Further, the Board was entitled to avail the rebate of 25 *per cent* of cess payable on adherence to pollution control norms.

Scrutiny of records revealed (December 2001) that WBPCB assessed the cess at Rs 2.04 crore for consumption of 8990.24 lakh kilolitres for the period from April 1999 to July 2000 which was payable by 14 October 2000. It was noticed in audit that the WBPCB charged the cess at a rate higher than the prescribed rate and also without allowing rebate on the ground that the Board had failed to adhere to the pollution control norms relating to ambient air quality and sewage water discharge.

The Board's appeal (October 2000) to reduce the rate and also to allow the rebate was, however, rejected (February 2001) by the WBPCB. Ultimately, the Board had to pay the entire amount of cess of Rs 2.04 crore by May 2002 while the Board would have paid Rs 1.01 crore (after allowing prescribed rate and rebate), had it adhered to the pollution control norms. Thus, the Board's failure to adhere to pollution control norms resulted in extra expenditure of Rs 1.03 crore towards cess.

In reply, the Government/ Board attributed (September 2002) the failure to non-functioning of neutralising system and pit of demineralised plant and non-replacement of ESP of unit V. However, the reply was silent in regard to the corrective measures to be taken to avoid excess expenditure towards water cess.

4B.1.7 Loss due to failure to invoke risk purchase clause

The Board failed to invoke the risk purchase clause on the erring contractor who had not completed the work and sustained a loss of Rs 18.81 lakh on completion of unfinished work through another contractor at additional cost

The Board placed a letter of intent (LOI) in March 1998 on Loknath Enterprise, Coochbehar (the contractor) for land development using carried

earth at Tarakeswar 132/ 33 KV sub-station, Hooghly at a total cost of Rs 65.97 lakh. The work was to be completed within six months from the date of commencement. The terms and conditions of the LOI *inter-alia* provided that in case of delay, the contractor was liable to pay liquidated damages up to a maximum of ten *per cent* of the total ordered value. The Board also reserved the right to rescind the contract and also to recover from the contractor, the extra expenditure from the pending bills and security deposit for completing the unfinished work through other agency.

Scrutiny in audit revealed that the contractor commenced the work on 23 March 1998 but could not complete the work within the stipulated period of completion (September 1998) mainly due to non-availability of carried earth in the vicinity and failure to deploy adequate number of dozers, trucks etc. On the request of the contractor, the Board extended (January 2000) the completion period upto 31 August 2000 by using river sand without any cost escalation. Though the Board was aware that it would not be possible for the contractor to complete the work as the cost of sand was 84 *per cent* higher than earth it failed to insist the contractor to use fly ash as filling material, which was 14 *per cent* cheaper than earth. Till 30 September 2000 the contractor executed the work valued at Rs 39.68 lakh using river silt. In view of poor performance the Board finally rescinded the order with effect from 30 September 2000 and got the balance work valued at Rs 26.29 lakh (Rs 65.97 lakh minus Rs 39.68 lakh) completed in November 2001 through engaging Asea Brown Boveri Limited (ABB) at an extra expenditure of Rs 18.81 lakh. It was observed that ABB was directed to execute the work using either earth or sand or fly ash.

Scrutiny also revealed that the Board had pending bills and security deposit aggregating Rs 14.53 lakh payable to the contractor at the time of terminating the order in September 2000. Despite this, Superintending Engineer, Chinsurah released Rs 11.18 lakh to the contractor in February 2001 without recovering the extra expenditure to that extent under risk purchase clause in violation of the terms of the LOI and specific order of the Board (October 2001).

Thus, failure of the SE to invoke the risk purchase clause on the contractor resulted in a loss of Rs 18.81 lakh to WBSEB. No responsibility was fixed.

In their reply (April 2002) the Government/ Board claimed to have saved Rs 27.26 lakh by getting the land filling work done with costlier river sand instead of earth. The reply is not tenable as the contractor had actually executed the work with river silt instead of sand.

Further, the Chairman while approving the proposal for not invoking risk purchase clause in the Board's meeting held in August 2002 observed that this was grossly against the interest of the Board not to fix responsibility either on the contractor or on Board's personnel before termination of order without imposing penal measure. He also directed to probe such matters to book the offenders. Further, development were awaited (September 2002)

4B.1.8 Payment of excess insurance premium

Failure of the Board to take insurance coverage in time resulted in payment of excess insurance premium of Rs 11.57 lakh

West Bengal State Electricity Board (Board) took out in June 1987 a Marine-Cum-Erection Policy (MCE) from United Insurance Company Limited (UICL) to cover the risk during storage, erection, testing and commissioning of four units (4 X 12.5 MW) of Rammam Hydro Electric Project (RHEP) for the period from March 1987 to March 1990. The period of insurance was extended from time to time up to March 1996. MCE, *inter alia*, covered the risk during testing period of the units for one month. The guidelines for settlement of non-standard claims contained in the Claim Procedure Manual (CPM) of UICL provided that in case of breach of the policy condition, claim for the loss would be settled after rectifying policy by charging additional premium for such breach, equivalent to three times of the original premium.

Scrutiny in audit revealed (November 2001) that the Unit-I of RHEP went into testing before commercial operation from 05 September 1995 to 18 November 1995. Even though the specified period of one month for testing had expired on 04 October 1995, the Project Manager as well as the Material Controller failed to extend the testing period coverage. The Unit-I tripped on 18 November 1995 with relay indication “Generator Stator Earth Fault” leading to severe damages to parts of the generator stator.

After assessment of damages jointly by the Board, BHEL* and Insurance Surveyor in April 1996, the Board lodged (July 1996) a claim of Rs 1.54 crore with UICL. UICL, after applying the provision of underinsurance, reduced (July 1998) the amount of claim to Rs 70.03 lakh. UICL deducted (July 1998) Rs 3.86 lakh towards premium for the extended testing period from 05 October 1995 to 09 March 1996 and another Rs 11.57 lakh equivalent to three times of original premium (Rs 3.86 lakh) due to failure of the Board to get the insurance coverage extended to take care of the extended testing period and paid balance Rs 54.60 lakh (Rs 70.03 lakh minus Rs 3.86 lakh minus Rs 11.57 lakh) to the Board in October 1998.

Thus, failure of the Project Manager and the Material Controller to get the insurance coverage extended in time to take care of extended testing period of the Unit-I resulted in payment of excess premium of Rs 11.57 lakh. No responsibility was fixed.

The Government/ Board accepted (April 2002) the audit observation.

* Bharat Heavy Electricals Limited

4B.1.9 Unfruitful expenditure

Computer Aided Maintenance Management System scheduled to be commissioned by September 1995 at Bandel and Santaldih thermal power station was not operational due to inept handling of implementation thereby rendering the investment of Rs 43.45 lakh unfruitful

Failure to implement the CAMMS project resulted in unfruitful investment of Rs 43.45 lakh

West Bengal State Electricity Board (Board) placed (January 1994) a letter of intent (LOI) on National Thermal Power Corporation Limited (NTPC) for rendering consultancy services at a lump sum fee of Rs 30 lakh towards introduction of the Computer Aided Maintenance Management System (CAMMS)* and a computer system design for implementing the CAMMS at Bandel and Santaldih thermal power stations (TPS). As per the terms of the LOI, NTPC besides assessing the requirements of system of maintenance of TPS was to prepare and evaluate bid specifications for hardware and also to supervise commissioning of hardware. The entire work was to be completed by January 1995. The Board paid Rs 18 lakh to NTPC as advance between March 1994 and January 1995 and NTPC submitted the Project Report in May 1995. For supply, installation and commissioning of the computer net work at Bandel and Santaldih TPS, the Board placed (June 1995) two orders on Webel Informatics Limited (WIL) for a total price of Rs 47.21 lakh.

The scrutiny of relevant records brought out the following :

- (i) Against the target date of completion by September 1995, WIL completed the supply of equipment in January 1998 after a delay of 30 months. However, the Board released (August 1999) Rs 25.45 lakh to WIL without recovering the liquidated damages of Rs 2.36 lakh. WIL did not complete the balance work so far (September 2002).
- (ii) The Board had placed the order on WIL in June 1995 after the expiry of the LOI on NTPC in January 1995 and did not take any action to extend the LOI so as to avail the services of NTPC in regard to supervising the commissioning of the hardware. As a result, NTPC neither supplied the requisite software developed for CAMMS nor inspected material supplied by WIL to ascertain their compatibility with NTPC's software.
- (iii) In line with the decision taken in the meeting (June 1998) between NTPC and the Board, NTPC submitted (August 1998) an offer for rendering consultancy services at a total lump sum fee of Rs 20.75 lakh towards implementation of the CAMMS. However, the Board did not accede to the request for reason not on record. On the contrary, the Board requested WIL time and again to complete the balance work. WIL requested (23 October 2000) the Board to engage NTPC for completion of the project and also suggested to upgrade the machinery already supplied and to bring them under Annual Maintenance Contract. However, the Board did not show any interest to commission the CAMMS. Consequently, the CAMMS scheduled to be

* CAMMS aimed at identification of defects and planning in maintenance, planning for routine/ preventive maintenance, lying down procedures for maintenance etc.

commissioned in September 1995 was not operational even after lapse of seven years.

Thus due to inept handling of implementation of CAMMS, the objective of CAMMS was not achieved thereby rendering the investment of Rs 43.45 lakh unfruitful.

While accepting the fact the Government/ Board stated (September 2002) that after the completion of balance work by WIL, the Board would go for a contract with NTPC. However, the reply is silent in regard to action taken to complete the balance work so as to commission the entire system.

4B.2 NORTH BENGAL STATE TRANSPORT CORPORATION

4B.2.1 Undue financial benefit to contractors

The Corporation failed to deduct liquidated damages of Rs 14.44 lakh from the defaulting firms for delay in delivery of fabricated bus bodies though it suffered a loss of contribution of Rs 35 lakh for such delay

North Bengal State Transport Corporation (Corporation) engages private firms to fabricate bus bodies on chassis purchased from Ashok Leyland Limited and Tata Engineering and Locomotives Limited. Additional Chief Engineer (ACE) of the Corporation is responsible to monitor the fabrication work so as to ensure quality and timely completion of work with a view to avoid loss of bus days.

The Corporation placed work orders on eight firms[®] for fabrication of 126 bus bodies of three categories at the rates varying from Rs 2.65 lakh to Rs 4.45 lakh per bus body between April 1999 and December 2001. According to the terms and conditions of the work orders, the firms were to deliver complete buses within 60 to 85 days from the dates of receipt of chassis lots. In case of delay, firms were liable to pay liquidated damages at the rate of Rs 100 per day of delay along with an interest at the rate of 15 *per cent per annum* on the cost of chassis. However, the Corporation did not obtain any security deposits from the fabricators for reasons not on record.

It was noticed in audit that the firms delivered 62 complete buses after a delay of 9 to 204 days from the scheduled date of delivery. ACE did not, however, analyse the reasons for delay in delivery by the firms. Though the firms were liable to pay liquidated damages of Rs 14.44 lakh for such delayed work, the Corporation did not recover the liquidated damages at the time of making payment to the firms on the plea that it could not ensure timely payment to fabricators due to financial stringency. The contention is not tenable as the Corporation paid the dues to the fabricators regularly and as such there was no

[®] Automobile House, Applo Coaches (P) Limited, Indian Motors, Kalimata, Raj Motors, Garrison Fabricators Limited, Carter Pooler Enginnering Limited and Sree Ram Industries

huge outstanding amount payable to them. On the other hand, delay in receipt of complete buses resulted in loss of 4388 bus days to the Corporation.

Thus, the Corporation allowed an undue financial benefit of Rs 14.44 lakh to the firms though it sustained a loss of potential contribution of Rs 35.41 lakh (after deduction of cost of fuel, lubricants, tyres, tubes from sale of tickets) due to loss of 4388 bus days.

The management stated (May 2002) that in future the penalty clause would be strictly enforced on the fabricators.

The matter was reported to the Government (March 2002); their reply had not been received so far (September 2002).

4B.3 WEST BENGAL SCHEDULED CASTES AND SCHEDULED TRIBES DEVELOPMENT AND FINANCE CORPORATION

4B.3.1 Loss due to injudicious investment of fund in short-term deposits

The Corporation sustained loss of interest of Rs 0.93 crore due to investment of fund in short term deposits with banks at lower rates of interest and also for shorter tenure

Injudicious investment of surplus fund led to loss of interest of Rs 0.93 crore

The West Bengal Scheduled Castes and Scheduled Tribes Development and Finance Corporation Act, 1976 empowers the Corporation to invest or deposit surplus funds in Government securities or other avenues at its discretion. The Board of Directors of the Corporation decided (August 1998) to invest 50 *per cent* of the surplus fund with nationalised banks, financial institutions or other Government agencies/ undertakings offering the highest rate of interest and the balance fund with those banks participating in the development schemes of the Corporation.

However, the Corporation had no system of preparing cash budget or forecast to assess the requirement of fund and to identify surplus fund. In this connection, the following points were noticed in audit:

(a) Scrutiny in audit revealed (September 2001) that between November 1998 and March 2001, the Corporation invested/ re-invested Rs 324.40 crore in short term deposits of 91 to 185 days with different banks of which only Rs 44.30 crore (14 *per cent*) were invested at the highest prevailing rates of interest of eight to eleven *per cent*. The balance amount of Rs 280.10 crore (86 *per cent*) was invested at lower average rates of interest of 7.48 to 9.23 *per cent*. The Corporation earned interest of Rs 11.31 crore.

Thus, the management failed to comply with the decision of the Corporation to invest, at least, 50 *per cent* of the available surplus fund at the highest

interest rate. As a result thereof, the Corporation sustained loss of Rs 0.82 crore during November 1998 to March 2001.

The management accepted (December 2001) the facts.

(b) The management also invested (November 1998-February 1999) Rs 20.50 crore on 11 occasions in short term deposits for 175 to 179 days with nine banks at interest rates of 8 to 10 *per cent per annum*. However, in seven instances, the deposits were renewed on maturity for 15 days, three deposits were refunded on maturity by banks after delays of four to seven days while one was transferred by the Corporation to savings account and retained therein for another 20 days. The rates of interest in the same banks for tenure of 180/181 days were higher at 8.75 to 10.60 *per cent per annum*.

Thus, the management's failure to invest fund for longer tenure to avail the higher rate of interest resulted in loss of interest of Rs 11.35 lakh.

In reply the Government stated (March 2002) that the matter was being investigated and the details would be sent in due course. Further development was awaited (September 2002).

KOLKATA
The

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NEW DELHI
The

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