# CHAPTER IV

# 4 Transaction Audit Observations

Important audit findings noticed as a result of test check of transactions made by the State Government companies/ corporations are included in this Chapter.

## Government companies

## WEST BENGAL POWER DEVELOPMENT CORPORATION LIMITED

### *4.1 Loss due to excess consumption of fuel*

**The Company sustained loss of Rs 96.67 crore on excess consumption of fuel due to its failure to take remedial measures to achieve guaranteed heat rate.**

Bakreswar Thermal Power Station (BkTPS) of West Bengal Power Development Corporation Limited (Company) was commissioned between November 2000 and October 2001 with three units having generation capacity of 210 mega watt (MW) power each.

Boilers of all the three units of BkTPS were supplied (November 1999 – September 2000) by Bharat Heavy Electricals Limited. The guaranteed heat rate i.e. the heat input required to generate a unit i.e. one kilowatt hour (kwh) of power, after providing for admissible auxiliary consumption, was designed at 2,494 kilocalories (Kcal) utilising coal as the principal fuel and oil as fuel support.

**Failure to achieve guaranteed heat rate resulted in excess consumption of fuel valuing Rs 96.67 crore.**

Audit observed that during 2001-03, BkTPS achieved net generation of 6,169.05 million kwh (Mkwh) by utilising 37.36 lakh tonnes of coal and 7,680 kilolitres (KL) of oil to the boilers. The average heat value of the coal utilised was 4,881.98 Kcal per kg and 4,929 Kcal per kg leading to aggregate heat consumption of 7,646.625 billion Kcal and 10,775.326 billion Kcal in 2001-02 and 2002-03 respectively. Consequently, the average heat consumed per unit of net generation in these two years was 2,998.625 Kcal and 2,977.427 Kcal, leading to excess consumption of heat by 504.625 Kcal and 483.427 Kcal respectively, as compared to the guaranteed heat rate.

The Company, however, took no remedial measures to arrest this excess consumption of 3,036.341 billion Kcal of heat in these two years leading to additional fuel cost of Rs 96.67 crore, as detailed in **Annexure-27**.

---

Excluding auxiliary consumption (714.003 Mkwh) and gross generation of Unit# 3 during pre-commissioning period (287.372 Mkwh)

Government/ management attributed (July/ September 2004) the excess consumption to transit loss of coal. The reply is not tenable since the actual quantity of coal fed to boilers has been considered.

Thus, failure of the management to take corrective measures to ensure guaranteed heat rate in conformity with design led to excess consumption of fuel of Rs 96.67 crore.

### *4.2 Loss due to non-replacement of turbine blades*

**Due to unnecessary delay in purchase of new blades for replacement of defective blades, the Company suffered loss of Rs 57.91 crore on account of operation of Unit -3 of Santaldih thermal power station at lower capacity besides incurring of extra expenditure of Rs 48.29 lakh.**

Santaldih Thermal Power Station (STPS) engaged (November 1996) Bharat Heavy Electricals Limited (BHEL) to undertake the overhauling of turbo-generator of Unit –3 during November 1996 to July 1997. BHEL pointed out that a set of 312 fourth stage low pressure turbine runner blades (LP blades) was required to be replaced by new ones to ensure power generation at the rated capacity. Lead time for procurement of LP blades was six to nine months.

STPS had exhausted stock of blades, but did not take any action to replace these blades during overhauling period. Resultantly, BHEL completed (August 1997) overhauling after replacing these LP blades by root blades and pressure reducing plates as a stop-gap measure, which ultimately restricted the generation capacity of the unit to 85 MW against the rated capacity of 120 MW.

After lapse of one year, STPS decided (June/ July 1998) to test 255 old blades through BHEL, the manufacturer, to assess their further usability and to replace 57 blades with new ones (cost : Rs 58.45 lakh[φ]). During testing (October 1998- April 1999) 96 old blades were rejected by BHEL, while for the balance 159 old blades, BHEL opined (April 1999) that even on repair with strips, these blades could not be used for uninterrupted operation for more than two to three years and though it had not carried out this type of repair earlier, it could develop on availability of sufficient time. But ignoring BHEL’s lack of experience, STPS placed (April 1999) letter of intent (LOI) on BHEL for repair (cost : Rs 16.70 lakh) of 159 blades within May 2000, as well as procured (September 2000) 115 new blades (96 in place of defective blades plus 19 as reserve) at a cost of Rs 1.17 crore.

Scrutiny revealed that out of 172 blades available in September 2000, STPS utilised (December 2000) 14 blades for overhauling of other unit and the balance 158 blades were not utilised so far (August 2004) on the ground that replacement with only 158 blades would not achieve proper ‘moment balance’ of the turbine.

[φ] Rs 85,000 per blade plus excise duty and central sales tax

**Inordinate delay in procurement of blades resulted in potential loss of generation of 386.06 MU power valuing Rs 57.91 crore besides extra expenditure of Rs 48.29 lakh towards procurement of blades.**

STPS placed the order on 07 January 2003 for overhauling of Unit-3 on BHEL within 60 days. Meanwhile, STPS placed (January 2003) another order on BHEL for procurement of a complete set of 312 new blades (cost : Rs 3.68 crore) at a price of Rs 97,750 per blade plus taxes and excise duty for overhauling of Unit-3. BHEL completed the supply by mid April 2003, but the overhauling of turbo-generator was already completed in early April 2003. Consequently, the new blades could not be utilised for replacement.

Management while accepting the fact stated (January 2004) that as per manufacturer's norms they had to procure a full set of blades as more than 50 per cent of blades got damaged and order should be placed one year before the time of utilisation.

Thus, the management should have procured new set of 312 blades in November 1996 itself for replacement of damaged blades, which was inordinately delayed for more than six years. Consequently, the Company sustained potential loss of generation (August 1999-January 2003) of 386.06 million units power valuing Rs 57.91 crore due to operation of Unit-3 below rated capacity, besides incurring of extra expenditure of Rs 48.29 lakh[∝] on delayed procurement of 312 blades and loss of interest of Rs 40.20 lakh on blocking of fund of Rs 1.61 crore[®].

## *4.3 Implementation of a project without financial tie-up*

**West Bengal Power Development Corporation Limited sustained loss of Rs 15.51 crore due to commencement of erection of Units IV and V of Bakreshwar Thermal Power Station without finalising implementing agency and financial tie-up.**

Government of India approved (December 1986) the construction of five thermal units (5 x 210 MW) at Bakreswar. Mention was made in Para 3C.6.3 (I) (a) (i) of the Audit Report (Commercial)- 1998-99 that West Bengal Power Development Corporation Limited (Company) placed orders (June/ September 1989) on APIL[ℜ] for supply and erection of boilers for Units I, II & III at a total cost of Rs 192.81 crore. The cost was to be funded out of loan assistance (July 1990) from erstwhile Soviet Union. However, due to political disintegration (1991) of Soviet Union, financial tie-up did not materialise. Ultimately, JBIC[φ] agreed (January 1994/ February 1995) to extend loan assistance for Units III, IV and V as green-field project and these units were re-numbered as I, II and III.

∝ Price in November 1996-April 1999-Rs 1,02,544 per blade, price per blade in January 2003-Rs 1,18,023. Extra expenditure-Rs 15,479 X 312 = Rs 48,29,448

® Cost of 158 blades still lying in stock

ℜ Alstom Projects India Limited, erstwhile ACC-Babcock Limited

φ Japan Bank for International Co-operation, formerly known as Overseas Economic Co-operation Fund (OECF)

In implementation of Units IV and V (earlier II and I[σ]), Audit observed as under :

**(a)** To finance setting up Units IV and V, a joint venture company namely, Bakreswar Generation Company Limited[ν] (BPGCL) was formed (February 1996). In terms of the joint venture agreement (December 1999), BPGCL and its EPC[℘] contractor were to negotiate terms with APIL for erection and commissioning of boilers. It was, however, decided (March 2000) to cancel the order on APIL for supply of boilers as both the units would be implemented by BPGCL and accordingly, the order was cancelled (June 2000) by the Company. Subsequently, BPGCL also withdrew (December 2000) itself from the project because of its inability to mobilise fund. Ultimately, JBIC agreed (January 2001) to finance the project with scheduled date of completion by March 2008.

**The Company's failure to complete financial tie-up before commencing erection of two units resulted in wasteful expenditure of Rs 15.51 crore.**

**(b)** Meanwhile, without finalising the financial tie-up for implementing the project or modalities of implementation, the Company allowed APIL to carry out the erection activities till November 1998 and paid (December 1998-December 2003) Rs 4.09 crore (including Rs 1.11 crore for escalation) to APIL. Subsequently, erected materials were also rejected (January 2001) by JBIC on the ground of internal corrosion and unsafe conditions. The management stated (July 2004) that erection activity was undertaken with the anticipation that the State Government would provide fund.

Thus, without finalising the financial tie-up, the management proceeded for erecting materials. Resultantly, the Company incurred (November 2002) avoidable expenditure of Rs 3.95 crore for dismantling of erected materials and their subsequent stacking. Further, the Company unnecessarily paid (December 2002- December 2003) Rs 1.08 crore to APIL towards site establishment expenses (December 1998- May 2000) despite closure of its site activities at Bakreswar since December 1998.

**(c)** On cancellation of the order, 4,650.53 tonnes of finished, semi-finished and raw materials for boilers valuing Rs 24.32 crore were lying at Durgapur works of APIL. But the Company transported these materials to the project site at Bakreswar only in December 2002, leading to avoidable payment (December 2002-December 2003) of Rs 2.53 crore to APIL towards storage rent for the period from April 1994/ April 1997 to December 2002.

Further, the Company had not taken any action to dispose of the dismantled materials or the finished/ semi-finished and imported raw materials valuing

[σ] As mentioned, there were five units. Initially, order was placed for three units i.e. I, II & III. Subsequently, when JBIC agreed to extend loan assistance for three units, the Company re-numbered the units III, IV and V as III, II and I while units I and II renumbered as V and IV.

[ν] Floated by West Bengal Power Development Corporation Limited, Development Consultants Limited (DCL), The Kuljian Corporation (TKC), USA, OGDEN Energy Asia Pacific Limited (Ogden), Hongkong

[℘] Engineering, Procurement & Commissioning

Rs 68.47 crore. Management stated (July 2004) that disposal would be difficult without customs clearance.

**(d)** The Company also paid (December 2002- December 2003) Rs 3.86 crore (five *per cent* of balance contract price of Rs 77.27 crore) to APIL as compensation for cancellation of the order towards cost of committed labour hours beyond the terms of the order and thereby extended undue favour to APIL.

Thus, due to injudicious commencement of erection work for Units IV & V without finalising the financial tie-up, continuance of APIL's site establishment and delay in lifting materials from APIL's premises even after cancellation of the order, the Company sustained loss of Rs 15.51 crore[∉].

The matter was reported to the Government (June 2004), their reply had not been received (September 2004).

## *4.4 Undue benefit to a coal supplier*

**West Bengal Power Development Corporation Limited waived the claims of Rs 6.27 crore on a private coal supplier beyond the provisions of the agreement and thereby extended undue benefit to the supplier to that extent.**

West Bengal Power Development Corporation Limited (Company) entered (May 1997) into a 20 - year agreement with Bengal Emta Coal Mines Limited (BECM), Kolkata for purchase of coal[®] for its power stations at prices based on actual grade of coal received. As per the agreement, the joint sampling of coal would be conducted at the power stations to determine the actual grade of coal and in case of dispute, sample analysis would be done by Central Fuel Research Institute (CFRI), Dhanbad, whose result would be binding on both parties. Further, in case stones/ shales were found mixed with coal supplied, BECM would reimburse the proportionate cost of coal along with transportation charges to the Company.

Audit observed that the Company lodged (February 2001-May 2002) grade slippage claims (Rs 35.95 crore) for supply (January - December 2001) of 15.28 lakh tonnes inferior grade coal to Kolaghat Thermal Power Station (KTPS) based on samples tested in the KTPS laboratory and 13,653 tonnes stones (Rs 1.77 crore) supplied (April 2001 - March 2002) instead of coal. While accepting the grade slippage claim of Rs 22.74 crore for 11.11 lakh tonnes, BECM, however, disputed (July 2003) the claim of Rs 13.21 crore for 4.17 lakh tonnes supplied in May, October and December 2001 as it disputed test results of KTPS laboratory.

[∉] Erection charge-Rs 4.09 crore, Dismantling charge – Rs 3.95 crore, Site establishment expenses – Rs 1.08 crore, Storage rent – Rs 2.53 crore, Compensation for committed labour – Rs 3.86 crore

[®] 'A' to 'F' grade with gross calorific value between 3000 and 6500 Kcal per kg, content of ash and moisture not more than 40 and 5 *per cent* respectively, volatile content not less than 18 *per cent*

Instead of referring the disputed samples to CFRI for independent analysis in terms of agreement, the Company agreed (July 2003) to settle the claim of Rs 13.21 crore at Rs 8.71 crore only, based on average grade of coal received (January to December 2001), thereby waiving the claim of Rs 4.50 crore. Further, the Company waived (July 2003) the claim of Rs 1.77 crore towards supply of stones on the pretext that their presence could not be determined accurately and settlement of claim (July 2003) towards grade slippage took care of claims towards supply of stone. It was, however, not acceptable as the KTPS authority had already determined (April 2003) the total quantity of stones (13,653 tonnes) and settlement of claim (Rs 8.71 crore) for grade slippage did not include the claim for stones. Thus, settlement of claims towards grade slippage and supply of stones/ shale beyond the terms of the agreement resulted in undue benefit to BECM, which led to loss of Rs 6.27 crore to the Company. The matter needs investigation to fix responsibility.

**The Company waived claims of Rs 6.27 crore for grade slippage and supply of stone/ shale by a private coal supplier.**

Management stated (July 2004) that claims towards grade slippage were settled in terms of the then Secretary, Power Department's guidelines that the grade slippage was to be determined by taking the average of results of sampling done by both parties and the claim towards stone was waived as it was difficult to determine the exact quantum of stone supplied. The contention is not acceptable as (a) guidelines ibid were applicable for settlement of grade slippage claim for the period from 1992-94 with other coal companies, and (b) claim towards stone was based on quantity of stone supplied, as determined by the management itself. On this being pointed out the management agreed (July 2004) to review the claims towards grade slippage and stone supplies as well as to settle the same in future in terms of the provisions of the agreement.

The matter was reported to the Government (June 2004), their reply had not been received (September 2004).

### *4.5 Poor cash management*

**The Company suffered loss of Rs 3.03 crore due to its failure in investment of surplus fund in term deposits of long duration at higher rate of interest.**

West Bengal Power Development Corporation Limited (Company) generated (March 2001) surplus fund of Rs 53.35 crore and started investing (June 2001) the same in short term deposits with banks.

Scrutiny revealed that the Company did not prepare cash budgets to forecast cash requirement and identify surplus fund for gainful deployment. During April 2001 to March 2003 the Company invested/ re-invested an aggregate of Rs 1,447.52 crore in short term deposits on 85 occasions in an *adhoc* manner.

The Company invested Rs 331 crore in short term deposits in 25 cases[ϕ] from April 2001 to March 2003 initially for seven to 189 days at rates of interest ranging from 4.25 to 9.50 *per cent* per *annum* and then renewed the deposits three to seven times for 32 to 365 days at varying rates of interest ranging from 5.75 to 9.50 *per cent* per *annum.* The Company earned Rs 33.08 crore as interest out of these short term deposits.

**Injudicious investment of fund led to loss of interest of Rs 3.03 crore.**

Had the Company forecast its fund requirement judiciously, it could have invested these surplus funds for 191 to 919 days continuously at a higher rate of interest ranging from 6.75 to 10 *per cent* per *annum* and thereby earned interest of Rs 36.11 crore against Rs 33.08 crore actually earned. Thus, due to investment of fund in short term deposits on an interim basis without preparing cash budgets and forecasting fund requirement, the Company sustained loss of interest of Rs 3.03 crore.

Government/ management stated (June 2004) that decision for short term deposits was considered in view of urgency to meet expenditure towards coal supplies, repair and maintenance of power plants as well as to meet the future commitments towards implementation of new power plants and also added that due to uncertainties in realisation from WBSEB, cash budgeting was not resorted to. The contention is not acceptable as **(a)** dues to coal suppliers were linked with the scheme of securitisation of dues for which the Company already issued bonds worth Rs 113.16 crore to a coal company, **(b)** expenditure towards repair and maintenance were included in the revenue budget **(c)** new power plants would be funded out of institutional finances and plan fund from State Government, and **(d)** realisation from WBSEB could be forecast and realisation increased significantly from 54.45 *per cent* in 2000-01 to 72.29 *per cent* in 2001-02 and further to 82.92 *per cent* in 2002-03 of the billed amount. Thus, the Company had no uncertain expenditure and income to draw the cash budget so as to determine the surplus fund for investment at a higher return. On this being pointed out, management agreed (July 2004) to follow cash flow mechanism before investment to ensure higher return as well as to take approval of the Managing Director regarding tenure of term deposits.

The matter was reported to the Government (July 2004), their reply had not been received (September 2004).

### *4.6 Loss due to excess payment of interest on working capital demand loan*

**Failure of the Company to repay the working capital demand loan in time led to payment of excess interest of Rs 2.50 crore.**

West Bengal Power Development Corporation Limited (Company) had been availing cash credit facility since 1991-92. In consonance with Reserve Bank of India guidelines, cash credit facility was bifurcated (July 1995) into cash credit account (CC) and working capital demand loan (WCDL). WCDL,

[ϕ] Indian Bank-Rs 141 crore (11 cases), Allahabad Bank-Rs 190 crore (14 cases) being 80 *per cent* of the total CC limit, was to be treated as interest bearing temporary loan, repayable in one lump sum within six months from the date of debit to WCDL account. A new WCDL account could be opened in the books of the bank even after repayment. On the other hand, CC was to be treated as a current account, carrying interest on overdraft balances but not earning interest on favourable balances.

To avoid excess financing, the Company was to determine its eligible working capital requirement on a quarterly basis to fix the operative limits for cash credit and WCDL, thereby minimising payment of interest.

**Despite availability of surplus balance in CC account, repayment of WCDL was delayed resulting in excess payment of interest of Rs 2.50 crore.**

Audit observed (February 2003) that the Company did not prepare the working capital requirement quarterly. The Company had limit of Rs 50 crore towards WCDL (Rs 40 crore) and CC (Rs 10 crore) from four banks[⊄]. The Company availed WCDL of Rs 36.40 crore in 1999-2000 and Rs 40 crore during April 2000 to January 2002. It, however, availed only Rs 59.86 lakh by way of cash credit during 1999-2000 and no cash credit was availed from April 2000 to January 2002. Ultimately, the Company repaid (January 2002) the WCDL out of surplus fund available in CC account.

Audit observed that though the Company had surplus balance of Rs 53.35 crore in the cash credit account as of 31 March 2001, it failed to repay WCDL in March 2001 itself. Consequently, the Company incurred Rs 5.01 crore towards avoidable payment of interest on WCDL from April 2001 to January 2002, while it earned interest of Rs 2.51 crore on investment of Rs 53.35 crore in short term fixed deposits during the same period.

Thus, failure of the Company to assess the requirement of working capital since April 2001 after considering surplus cash balances in the cash credit account as of March 2001, resulted in loss of Rs 2.50 crore on account of excess payment of interest (after adjustment of interest earned Rs 2.51 crore) on WCDL.

Government/ management stated (May 2004) that in view of uncertainty in assessing the working capital requirement instant close down of cash credit was not judicious. Further, the lead bank agreed to accept Company's proposal for liquidation of cash credit facility after series of discussions. The contention is not acceptable because **(a)** there was no uncertainty in assessing the working capital requirement, and **(b)** though the Company identified the surplus balance in CC, it did not repay WCDL, instead invested in short-term deposit to earn interest, entailing the Company to pay excess interest. Management assured (July 2004) to draw up the working capital requirement in future and assess the position of CC periodically so as to avoid excess payment of interest.

[⊄] State Bank of India, Indian Bank, United Bank of India & Allahabad Bank

## *4.7 Avoidable extra expenditure*

**Injudicious cancellation of a contract led to avoidable extra expenditure of Rs 1.53 crore.**

General Manager of Bandel Thermal Power Station (BTPS), Hooghly invited (November 1998) open tender for excavation of 10,00,000 cubic metres (cum) settled ash and its disposal beyond five kilometres and within 15 kilometres distance from ash pond. Das and Brothers (D&B), Hooghly, the lowest tenderer, quoted (January 1999) Rs 6,762 per 100 cum, subject to escalation for fuel. BTPS, however, took 11 months to finalise the tender against the normal 90 days of validity of the offer and issued the letter of intent (LOI) to D&B on 26 November 1999 for completion of the work by December 2001 at a total price of Rs 6.76 crore. The LOI did not include the price variation clause. BTPS, subsequently, placed (February 2000) a confirmatory order on D&B allowing escalation in rate for rise in price of diesel from the base date of 26 November 1999, i.e. the date of LOI.

**The Company cancelled an existing contract for excavation of settled ash thereby incurring additional expenditure of Rs 1.53 crore.**

Audit observed (December 2003) that D&B excavated and disposed of 3,07,158 cum (value Rs 2.08 crore) till 24 June 2000 and thereafter suspended the work on account of its failure to pay wages to labourers and dues to truck owners. Meanwhile, D&B requested (May 2000) BTPS to allow escalation from the date of its offer (January 1999) as the price of diesel on the date of tendering (January 1999) had increased considerably when the LOI was placed in November 1999.

In view of sharp increase of diesel price in October 1999 as compared to April 1999, the Standing Tender Committee (STC)-I recommended (November 2000) to revise the base date of escalation as 20 April 1999 with additional financial involvement of Rs 11.65 lakh (Rs 379.44 per 100 cum) towards escalation claim for executed portion of work (3,07,158 cum).

Ignoring the recommendation of the STC-I, the General Manager terminated the order on 27 November 2000. The leftover work (6,92,842 cum) was completed (August 2002) by Hooghly-Chinsurah Adarsha Co-operative Labour Contract and Construction Society Limited at the higher rate of Rs 9,350 per 100 cum at an extra cost of Rs 1.53 crore[≈].

Thus, despite the recommendation of STC-I to accept the escalation claim, injudicious decision to cancel the order with D & B resulted in an avoidable extra expenditure of Rs 1.53 crore.

Management assured (July 2004) to take corrective step so as to avoid extra expenditure in future.

---

[≈] Rs 9,350 minus (Rs 6,762 + 379.44) Rs 7141.44 per 100 cum = Rs 2208.56 per 100 cum for 6,92,842 cum

## *4.8 Excess payment of income tax and payment of avoidable interest*

**West Bengal Power Development Corporation Limited paid excess income tax of Rs 69.73 lakh on book profits arising from non-provision of interest and depreciation and also avoidable interest of Rs 12.37 lakh on account of delays in payment of advance tax.**

The Income Tax Act, 1961 (Act) provides for computation of profits and gains of business or profession for any assessment year under Sections 28 to 44D and tax at the prescribed rates is payable in advance on income so computed in four$^{\Omega}$ instalments within the financial year preceding the assessment year. In the event of short/ non-payment of tax, interest would be payable at 1.25 *per cent per mensem*. From the financial year 2000-01, with introduction of Section 115JB, the minimum tax payable by companies including power sector companies is 7.50 *per cent* of its book profits$^{\otimes}$.

**The Company paid income tax of Rs 69.73 lakh on non-existent book profits and interest of Rs 12.37 lakh on delayed payment of income tax.**

West Bengal Power Development Corporation Limited (Company), operating four$^{\Re}$ generating stations, had no tax liability till 1999-2000. During 2000-01, 2001-02 and 2002-03, the Company depicted book profits of Rs 3.57 crore, Rs 7.66 crore and Rs 1.45 crore respectively. Accordingly, the Company had to pay tax of Rs 30.39 lakh, Rs 58.33 lakh and Rs 11.40 lakh on the book profits so depicted.

Audit observed (September 2003/ February 2004) that the Company sustained loss of Rs 82.10 lakh due to excess payment of income tax and payment of avoidable interest on delayed payment of advance tax as discussed below.

**4.8.1** The Government approved (October 2001/ January 2002) the Company's proposal (October 2001) to convert State Government loans of Rs 709.19 crore to equity as well as to reduce interest on loans (Rs 1,654.77 crore) to two *per cent* per *annum* from 14.5 *per cent* in respect of estimated project cost of Bakreswar. Subsequently, the Government issued (March 2003/ February 2004) orders for conversion of Rs 709.19 crore in five equal annual instalments from 2002-03, while interest was to be charged on the balance of loan outstanding at the beginning of each year.

Meanwhile, the Company without waiting for the requisite orders, effected adjustments in its accounts for 2001-02 and 2002-03. Moreover, the Company did not provide for interest on loan for transmission system and sub-station for Bakreswar as well as depreciation thereon. This led to underprovision of expenses during 2001-02 by Rs 61.84 crore (interest : Rs 43.12 crore, depreciation : Rs 18.72 crore). Similarly, the Company did not provide for expenses aggregating Rs 61.93 crore (interest : Rs 43.14 crore, depreciation : Rs 18.79 crore) in the accounts for 2002-03. Had these expenses been accounted for, the book profits of Rs 7.66 crore and Rs 1.45 crore for 2001-02

$^{\Omega}$ On or before 15 June, 15 September, 15 December and 15 March

$^{\otimes}$ Profit before tax appearing in the Profit and Loss Account for the year

$^{\Re}$ Kolaghat (KTPS), Bakreswar (BKTPS), Bandel (BTPS) & Santaldih (STPS) and 2002-03 respectively would become losses of Rs 54.18 crore and Rs 60.41 crore.

Thus, non-provision of interest and depreciation by the Company resulted in reflection of non-existent book profits in 2001-03 and excess payment of tax of Rs 69.73 lakh thereon.

While accepting the facts, management stated (July/ August 2004) that payment of excess income tax cannot be recovered through tariff mechanism because tariff order does not provide for reimbursement of income tax.

**4.8.2** The Company belatedly paid tax for 2000-01 and 2001-02 in August 2001 and September 2002 along with interest of Rs 4.31 lakh and Rs 8.06 lakh respectively against last dates of 15 March 2001 and 15 March 2002. Thus, failure of the Company to pay advance tax led to payment of avoidable interest of Rs 12.37 lakh. Management accepted (July 2004) the observation.

## WEST BENGAL INFRASTRUCTURE DEVELOPMENT FINANCE CORPORATION LIMITED

### *4.9 Disbursement of borrowed fund as interest-free advance*

**The Company sustained loss of Rs 36.19 crore due to disbursement of borrowed fund as interest free advance to meet the dues on behalf of public sector enterprises/ co-operative societies.**

With a view to financing infrastructure development projects in the State, West Bengal Infrastructure Development Finance Corporation Limited (Company) raised funds of Rs 2,084.54 crore and Rs 3,460.37 crore at an average rate of interest of 13 and 11 *per cent* in 2001-02 and 2002-03 respectively through issue of bonds to financial institutions, banks etc.

**Disbursement of borrowed fund as interest free advance led to loss of Rs 36.19 crore besides advance of Rs 110.87 crore was doubtful of recovery.**

Audit observed (April 2004) that six[±] public sector enterprises (PSEs), WBSCHFL[ð] and different municipalities that had obtained loans from Life Insurance Corporation of India (LIC) and United Bank of India (UBI) against Government guarantees, defaulted in repayment of loans and interest thereon aggregating Rs 82.98 crore (LIC : Rs 76.05 crore, UBI : Rs 6.93 crore) up to November 2001. As the guarantor, the State Government failed to discharge these liabilities, the Company unilaterally liquidated (December 2001-December 2002) the entire dues (Rs 82.98 crore) on behalf of these defaulting organisations/ State Government in order to facilitate LIC's subscription to its bonds (Rs 200 crore) and to raise short-term loans (Rs 100 crore) from UBI.

Further, on the direction (March 2002/ March 2003) of the State Government, the Company also released (March 2002/ March 2003) Rs 76.44 crore to West

[±] West Bengal Housing Board, (Rs 6.02 crore), West Bengal State Electricity Board (Rs 51.24 crore), West Bengal Handloom and Powerloom Development Corporation Limited (Rs 2.23crore), West Bengal Pulpwood Corporation Limited (Rs 0.81 crore), West Bengal Fisheries Corporation Limited (Rs 1.20 crore), West Bengal Power Development Corporation Limited (Rs 0.01 crore)

[ð] West Bengal State Co-operative Housing Federation Limited (Rs 15.15 crore)

Bengal State Co-operative Bank (WBSCB) for repayment of Government guaranteed loans and interest on behalf of 10[®] defaulting PSEs/ co-operatives in order to improve the position of non- performing assets (NPA) of WBSCB.

Audit observed that the Company had not entered into agreements regarding payment of interest with these defaulting organisations before releasing funds on their behalf, nor had the State Government issued order for treating the fund so disbursed as loan to the Government. The Company had also not pursued with State Government for issue of clear-cut orders.

Consequently, the entire amount (Rs 159.42 crore) was treated as interest-free advance in the books of the Company. Out of Rs 159.42 crore recoverable, the Company recovered (January 2004) Rs 48.55 crore only from WBSEB without any interest (Rs 12.48 crore) thereon. The balance amount of Rs 110.87 crore was also doubtful of recovery due to poor financial health of these institutions.

The Company stated (April 2004) that the amount was not treated as loans to the respective agencies since that needed mutual consent and agreement. Therefore, the computation of loss of interest on that score was simply meaningless.

Thus, failure of the Company to enter into agreements before release of borrowed fund, bearing interest of 11 to 13 *per cent per annum*, for meeting liabilities of other enterprises without earning any interest resulted in loss of Rs 36.19 crore to the Company.

The matter was reported to the Government (May 2004), their replies had not been received (September 2004).

## NATIONAL IRON AND STEEL COMPANY (1984) LIMITED

### *4.10 Unfruitful investment*

**The Company set up an 18 inch bar mill to produce steel bars from billets, without ensuring receipt of billets from SAIL, which resulted in unfruitful expenditure of Rs 11.76 crore.**

With a view to modernise its' factory at Belur, National Iron & Steel Company (1984) Limited (Company) decided (August 1997) to install a 18" bar mill with annual production capacity of 30,000 tonnes CTD[ϕ] steel bars at an estimated cost of Rs 8.53 crore. Techno economic analysis and feasibility report, prepared (August/ September 1999) by SAIL[χ], projected that

[®] West Bengal Handloom and Powerloom Development Corporation Limited (Rs 38.37 crore),West Bengal Surface Transport Corporation (Rs 1.80 crore), South Bengal State Transport Corporation (Rs 6.47 crore), West Bengal Leather Industries Corporation Limited (Rs 12.90 crore), Alcond Industrial Co-operative Society (Rs 2.51 crore), Indian Farmer and Khadi Society (Rs 6.06 crore), Matara Jute Supply (Rs 1.91 crore), Murshidabad Jute Industries (Rs 0.39 crore), New Central Co-operative Credit Society Limited (Rs 1.07 crore) & BENFED (Rs 4.96 crore)

[ϕ] Cold Twisted Deformed

[χ] Steel Authority of India Limited

the bar mill would convert 15,000 tonnes billets into steel bars for sale to SAIL and another 15,000 tonnes billets into steel bars for direct sale to the Company's customers so as to fetch an annual net profit of Rs 2.02 crore at 80 *per cent* capacity utilisation. It further envisaged that entire quantity of 30,000 tonnes billets would be supplied by SAIL.

The Company entered (January 1999) into an agreement with SAIL for providing project management and consultancy services at a fee of Rs 75 lakh plus five *per cent* service tax. As per the agreement, the Company was to finalise separate agreement with SAIL for long-term supply of billets.

**Installation of an 18 inch bar mill without ensuring long term supply of billets led to unfruitful investment of Rs 11.76 crore.**

The Company, without entering into agreement to ensure supply of billets on long-term basis, placed (April/ August 1999) work orders on seven firms for supply, erection and commissioning of main plant and other equipment at a cost of Rs 5.83 crore. The bar mill was commissioned in February 2001 at a total cost of Rs 11.76 crore. The bar mill commenced commercial production in September 2001.

The Company did not receive requisite quantity of billets from SAIL and consequently, against the anticipated annual production of 24,000 tonnes, the mill produced only 2,837 (September 2001–March 2002), 2,104 (April 2002-March 2003) and 417 (April-May 2003) tonnes at meagre annual average capacity utilisation of nine *per cent*. Due to financial crunch, the Company also failed to purchase billets from outside sources. Ultimately, the Company stopped production in June 2003. Thus, installation of a bar mill, without ensuring long-term supply of billets, resulted in unfruitful expenditure of Rs 11.76 crore.

While accepting the fact, the management stated (March 2004) that SAIL's persistent failure to supply billets was undoubtedly the principal factor for low production and the issue was taken up at the highest level of SAIL, which ultimately informed their inability to supply billets.

The matter was reported to the Government (July 2004), their replies had not been received (September 2004).

## WEST BENGAL INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

### *4.11 Undue favour to a private party*

**Release of loan to a private party without security resulted in a loss of Rs 1.19 crore.**

West Bengal Industrial Development Corporation Limited (Company) sanctioned (September 1999) a term loan of Rs 90 lakh to Bengal Manures Company (Pvt.) Limited (BMCL) to finance a part of the capital cost

(Rs 2.23© crore) for setting up a mixed fertiliser manufacturing plant at Barasat in the district of North 24 Parganas. The terms and conditions of the sanction *inter-alia* included investment of Rs 74.25 lakh by way of equity capital and unsecured loan as well as arrangement of term loan of Rs 34 lakh by BMCL from any bank before disbursement of financial assistance from the Company.

**The Company released loan of Rs 1.19 crore to a private company in contravention of the terms.**

Audit observed that while executing the agreement (March 2000) BMCL failed to mortgage land since it had already deposited (July 1998) original title deed with Magma Leasing Company (MLC) for hiring of machines and this fact was also known to the then Manager (Law) of the Company. Besides, BMCL approached (May 2000-June 2001) six♥ banks for term loan (Rs 34 lakh) and equity participation of Rs 13 lakh, that failed to materialise, because of its failure to adhere to the conditions of bank loan. Despite this, the Company, based on the certificates of a Chartered Accountant, disbursed (May 2000-January 2001) loan of Rs 60 lakh deviating from the terms of sanction. The officials of the Company neither inspected the site to ascertain the physical progress of the work nor verified the books of accounts of BMCL to determine the details of actual expenditure incurred out of fund received.

Despite continuous failure of BMCL to arrange assistance, the Company sanctioned (June 2001) additional term loan of Rs 17 lakh. The Company disbursed (June-August 2001) Rs 22 lakh leading to a total disbursement of Rs 82 lakh. The amount purported to have been spent on the project as per the Chartered Accountant's certificate, stood at Rs 1.67 crore as of 31 August 2001. After lapse of nearly two years, the officials of the Company on inspection of the site, noticed (April/ May 2003) that the factory shed remained incomplete and only four machines were procured, thereby casting doubt about the actual expenditure incurred with reference to physical progress.

BMCL failed to pay interest and principal of loan since first instalment (September 2001), but the Company took action only in June 2003 by serving a notice on BMCL under Section 30 of State Financial Corporations Act, 1951 to pay dues of Rs 1.19 crore towards principal (Rs 82 lakh) and interest (Rs 37 lakh). The Company took over (October 2003) the assets of BMCL under Section 29 of State Financial Corporations Act. When the Company reached (January 2004) the site for physical possession to value the assets, it noticed that the assets were already sold for Rs 3.50 lakh to MLC under the orders (February/ March 2003) of Hon'ble High Court because of BMCL's failure to pay the hiring charges to MLC. Consequently, the Company failed to recover Rs 1.19 crore from BMCL.

Thus, lackadaisical attitude of the management in disbursing loan to a private party without ascertaining its credentials, not conducting inspection at site or

© Means of finance : equity by promoters-Rs 0.65 crore, unsecured loans to be brought by promoters- Rs 0.34 crore, term loan from WBIDC-Rs 0.90 crore, term loan from bank-Rs 0.34 crore

♥ State Bank of India, Indian Bank, Oriental Bank of Commerce, Vysya Bank, West Bengal State Co-operative Bank and State Bank of Hyderabad ensuring proper security in clear violation of the terms of the sanction tantamount to undue favour to BMCL with consequential loss of Rs 1.19 crore.

On being pointed out (February 2004) in audit, management lodged FIR in June 2004 against the promoter and launched an internal investigation to fix responsibility. Government/ management in reply assured (July 2004) that installation of IT driven system and e-governance would minimise the risk as well as strengthen the internal control mechanism.

## WEST BENGAL AGRO INDUSTRIES CORPORATION LIMITED

### *4.12 Infructuous expenditure on a joint venture project*

**Injudicious decision to invest in an unviable project in the joint sector with a private co-promoter without evaluating his financial and technical credentials and release of fund without security resulted in an infructuous expenditure of Rs 61.58 lakh.**

With a view to promoting agro-based industries in the backward areas of North Bengal, West Bengal Agro Industries Corporation Limited (Company) took the initiative for setting up a sutli (jute-twine) manufacturing unit from available jute in Coochbehar district under joint sector by utilising the idle infrastructure of erstwhile cigar and cheroot factory at Dinhata.

The Company entered (August 1996) into a Memorandum of Understanding (MOU) with a private individual (co-promoter), without verifying his technical and financial credentials, to form a new joint sector company named 'Coochbehar Jute Processing Company Limited' (CJPC). CJPC was incorporated in December 1996. MOU inter alia provided that the paid up capital of the new Company and the liability towards terminal benefits of existing 38 workers of the defunct unit was to be shared by the Company and the co-promoter on 51 : 49 basis respectively. The State Government approved (September 1998) the project.

The Company disbursed (November 1998-December 2000) Rs 29.29 lakh as share capital (Rs 1.53 lakh) and loan (Rs 27.76 lakh) without obtaining security from the co-promoter and also incurred Rs 9.16 lakh towards payment of terminal benefits to its employees (Rs 0.96 lakh), for renovation of factory building (Rs 7.86 lakh) and preliminary expenses (Rs 0.34 lakh).

CJPC commenced production during 1999-2000 but closed the activities (November 2001) due to mis-management and mal-administration of the unit. CJPC failed to prepare accounts since inception, hold annual general meetings and submit annual returns to the Registrar of Companies in violation of the Companies Act, 1956 indicating lack of monitoring by the Company. Ultimately, the records were seized by the Company and accounts for 1996-97 to 2001-02 were prepared (July 2002) through a firm of Chartered

Accountants at a fee of Rs 0.33 lakh. Meanwhile the whereabouts of the Co-promoter was also not known to the Company.

Against the total dues of Rs 62.08 lakh·, the Company received Rs 0.50 lakh only from CJPC towards loan. CJPC had no assets except plant and machinery worth Rs 10.56 lakh as of March 2004, which was not also physically verified by the Company.

Thus, injudicious decision to invest in a joint venture project without evaluating the co-promoter's financial and technical credentials and release of loan without any security resulted in an infructuous expenditure of Rs 61.58 lakh.

Government/ management stated (August 2004) that legal action was being contemplated to wind-up the joint venture company and also assured to examine all aspects of proposals and risk involved before investment in future.

## WEST BENGAL TOURISM DEVELOPMENT CORPORATION LIMITED

### *4.13 Undue benefit to management contractor*

**West Bengal Tourism Development Corporation Limited sustained loss of Rs 31.55 lakh on reduction of lease rent in violation of agreement.**

In accordance with the decision (November 1992) of the State Government, West Bengal Tourism Development Corporation Limited (Company) invited (July 1995) offers for leasing out its tourist lodge (lodge) at Santiniketan. Out of the four offers received, the Company accepted offer of Mark Hotels and Resorts, Kolkata (MHR), a partnership firm and entered into a 33 year lease agreement (November 1995). The agreement, *inter alia*, provided for payment to the Company by MHR, a minimum guaranteed return (MGR) aggregating Rs 3.91 crore[ϒ] over the entire lease period and all necessary assistance to MHR by the Company for obtaining requisite licences including bar licence. Moreover, there was no provision for waiver of or reduction in MGR.

The Company received (December 1995) rupees five lakh towards MGR from MHR for the period from December 1995 to November 1997 as per the agreement. Subsequently, MHR observed (May 1998) that the Company had not taken necessary action to obtain the requisite bar licence and sought (October/ November 1998) moratorium on payment of MGR on the pretext of low earnings of lodge, in the absence of a bar. Although the agreement did not provide for deferred/ reduced payment of rent and the Company was only to assist MHR in obtaining bar license, the Board of Directors of the Company, decided on 01 February 1999 that MHR should immediately pay rupees five lakh and submit detailed justification in support of its contention

---

[ϒ] Rs 2.50 lakh for the first two years i.e. December 1995 to November 1997 and subsequently increasing from Rs 11 lakh to Rs 14.74 lakh per annum for the third to the thirty third year that non-receipt of a bar licence had resulted in financial losses. In contravention of the Board's decision, the former Managing Director of the Company permitted, on 09 February 1999, MHR to pay MGR at 50 *per cent*, till settlement of the bar licence issue.

Under the terms of the agreement, the Managing Director of the Company wrote (November 1998/ February 2000) to the District Magistrate, Birbhum (DM) for grant of bar licence to MHR. The Company received (December 1995-January 2003) Rs 35.78 lakh from MHR for the period December 1995 to November 2003 against contracted MGR of Rs 69.05 lakh.

To waive audit objection regarding non-recovery of rent, the Company entered (September 2003) into a revised 33 year lease agreement with MHR with effect from December 1995 at reduced aggregate MGR of Rs 2.22 crore for the entire lease period including MGR of Rs 37.50 lakh from December 1995 to November 2003. The Board of the Company ratified the revised agreement on 29 December 2003.

The Government stated (May 2004) that the DM had expressed inability to grant permission for running a bar at Santiniketan. The reply is not tenable since the Company was aware that MHR had received temporary licences to serve liquor and there was no shortage of bars at Santiniketan. However, the Company assured (August 2004) that while leasing out lodges in future, adequate security like bank guarantees would be obtained and selection of management contractors made more rigorously.

Thus, the Company allowed undue benefit to the management contractor by reducing MGR, thereby sustaining loss of revenue of Rs 31.55 lakh[∞] from December 1995 to November 2003.

## 4.14 Wasteful expenditure due to injudicious selection of site

**West Bengal Tourism Development Corporation Limited sustained loss of Rs 17.14 lakh for construction of a tourist lodge within the prohibited area of a national monument.**

West Bengal Tourism Development Corporation Limited (Company) received (March 1997) grant of Rs 83.74 lakh from the State Government for construction of a tourist lodge at Lalbagh in Murshidabad district, an area full of historical monuments and buildings of archaeological importance.

The Company entered (February 1998) into an agreement with S Bonnerjee & Associates (SBA) for preparing preliminary proposal, detailed design as well as undertaking site supervision, at a fee of four *per cent* of estimated cost of construction. The Company appointed (July 1998), Buildfab (contractor) to construct a lodge at Rs 85.60 lakh by July 1999 on a site about 120 metres from the Hazarduari Palace, declared (June 1992) by the Archaeological Survey of India (ASI) as a protected monument of national importance. The Company's selection of site without clearance from ASI was in contravention

[∞] Rs 69.05 lakh less Rs 37.50 lakh

of the Ancient Monuments and Archaeological Sites and Remains Act, 1958 and Rule 32 of the Ancient Monuments and Archaeological Sites and Remains Rules, 1959 which prohibit all construction within 100 metres and regulates any construction between 100 and 300 metres of a protected monument. Consequently, ASI observed (October 1998) that the height of the proposed structure (11.5 metres) would obstruct the view of the Hazarduari Palace from the South Gate, which was another vital archaeological heritage and refused permission for construction even in the regulated zone. ASI also advised the Company to approach Director General, ASI, which the Company never did.

Ignoring the advice of ASI, the Company identified (October 1998) a new location in the same area of historical importance, adjoining the South Gate and instructed (November 1998) the contractor to resume work. However, the Company did not obtain the No Objection Certificate from ASI. The contractors continued the work till May 2003 and the Company paid Rs 17.14 lakh to the contractor (Rs 15.04 lakh) and to SBA (Rs 2.10 lakh).

In May 2003, ASI also notified the South Gate as a protected monument with the site falling within the prohibited zone. As a result, the Company abandoned the construction in September 2003, leading to a loss of Rs 17.14 lakh towards consultancy and construction. This loss could have been avoided had the Company complied with the requirement of obtaining No Objection Certificate before selecting a site beside a vital archaeological heritage.

While accepting the fact, the Government/ management assured (August 2004) that in future the suitability of locations in the vicinity of historical sites would be assessed before commencement of construction of lodges.

## SARASWATY PRESS LIMITED

### *4.15 Loss due to excessive wastage of paper*

**Faulty production planning and lack of internal control over utilisation of paper in printing of text books and telephone directories resulted in a loss of Rs 88.43 lakh due to paper wastage in excess of norms.**

Saraswaty Press Limited (Company) utilised 10,710.40 tonnes paper valuing Rs 33.33 crore for printing books, forms and security papers valuing Rs 74.70 crore during 2000-03. Management fixed the norms for wastage of paper at three to six *per cent*, against which actual wastage stood at 22.39 *per cent*, leading to excess wastage of 1,755.09 tonnes paper over norms valuing Rs 4.17 crore (after adjustment of sales realisation of Rs 1.30 crore of scrap paper). Management did not evolve any system to control excessive wastages in different production processes.

**Lax internal control led to abnormal wastage of 284.61 tonnes paper valuing Rs 88.43 lakh.**

Audit observed that on consumption of 3,047.32 tonnes paper relating to 59 jobs[∉], the Company lost Rs 88.43 lakh on excessive wastage of 284.61 tonnes paper over norms for following reasons :

- For executing these jobs, the production planning section opened job tickets mentioning the grade and thickness of paper to be used but did not indicate the quantity of paper required for these jobs after considering permissible wastage. On the other hand, stores department, on receipt of 474 indents from two user departments, issued 3,047.32 tonnes paper against the requirement of 2,762.71 tonnes as per norms. Neither the planning section nor the costing department checked the consumption of paper with reference to norms to control excess consumption over norms during the execution of jobs. Thus, the management had no internal check on liberal indents of paper by user sections and issue of paper thereagainst. Further, management did not investigate nor reconcile difference of 216.69 tonnes consumption of paper between stores and production departments in respect of 58 printing jobs of text books.

- The Company procured paper reels with different diameters ranging from 95 to 107 centimetres. Paper reels up to 100 centimetres could be loaded on web offset machines. When paper reels with diameter more than 100 centimetres received, the extra thickness (up to seven centimetres) was to be scrapped while loading reels on machines. Further, paper reels of two similar diameters were to be loaded on both the rollers of these machines to avoid wastage. This was not, however, followed. Consequently, when reels of smaller diameter were exhausted, remaining paper on reels of bigger diameter was to be scrapped.

- Despite utilisation of machinery to the extent of 29 to 41 *per cent* of their expected capacity, the Company did not utilise the idle capacity for emergent jobs so as to avoid disruption of ongoing jobs. Audit noticed 1,569 cases of interruption in six jobs relating to three to 10 machines for executing other jobs. These excessive interruptions also caused abnormal wastage due to adjustment of paper in the new run for new job.

- The stores department recorded the receipt of paper on the basis of challans without weighment. Consequently, possibility of short receipt could not be ruled out in audit. Further, paper reels/ packets, found partially damaged after opening at shop floor, were treated as scrap.

While accepting the fact, the management stated (February 2004) that action was being taken to avoid interruption from one job to another as well as to weigh the truck load consignments at the nearest weighbridge. Further, the management assured (February/ July 2004) that on implementation of Enterprise Resource Planning (ERP) software package expectedly by end of

---

[∉] 58 printing jobs of text books of Department of Secondary Education for the sessions 2000-2004 and job No. 666/01-02 – Kolkata Telephone Directory

2004-05, requirement of paper would be recorded in the on-line system against which paper would be issued by the stores department and the Works Controller would be responsible to oversee the paper consumption.

The matter was reported to the Government (March 2004), their reply had not been received (September 2004).

## WEST BENGAL STATE SEED CORPORATION LIMITED

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

**West Bengal State Seed Corporation Limited paid Rs 69.09 lakh as *ex-gratia* in the form of puja welfare grant to its employees in violation of Payment of Bonus Act and instructions of the Government.**

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

**The Company paid ex-gratia of Rs 69.09 lakh in contravention of the law and Government's orders.**

Audit observed (March 2004) that the Board of West Bengal State Seed Corporation Limited (Company), in addition to payment of bonus of Rs 4.20 lakh to eligible employees, approved the payment of *ex-gratia* of Rs 56.84 lakh in the form of puja welfare grant for the years 1998-2002 to its employees whose salary/ wages exceeded the limit prescribed under the Act. Further, in violation of the instruction of the Government, the Company paid additional Rs 12.25 lakh as *ex-gratia* for 2002-03 at the rate of Rs 7,250 per employee instead of Rs 1,000 and that too to employees irrespective of the ceiling on eligibility fixed by the Government i.e. emoluments not exceeding Rs 8,300 *per mensem*.

Thus, payment of *ex-gratia* amounting to Rs 69.09 lakh to ineligible employees was irregular and inconsistent with the provisions of the Act as well as instructions of the Government.

Management stated (April 2004) that since the Company was profit earning it paid 'puja welfare grant' to employees who were not entitled to bonus. The reply was not acceptable, as the Company did not prepare its accounts for the years 1998-2002 in terms of the Act, *ibid* to ascertain available surplus. Even if there was surplus, the payment of *ex-gratia* was in violation of the terms of the Act, *ibid* and the Government's instructions. The management had, however, assured (July 2004) to place the matter before the Board to take necessary corrective action. No action has been taken so far (September 2004).

## Statutory corporations

## WEST BENGAL STATE ELECTRICITY BOARD

### *4.17 Loss of incentive*

**West Bengal State Electricity Board had to forgo incentive of Rs 11.50 crore from Damodar Valley Corporation and National Hydro-electric Power Corporation Limited due to delay in opening requisite letters of credit in their favour.**

**Delay in opening letters of credit led to forgoing incentive of Rs 11.50 crore.**

With a view to reducing the burden of rising overdues of State Electricity Boards (SEBs) to Central Public Sector Undertakings (CPSUs), the Ministry of Power (MOP), Government of India, prepared (March-July 2001) a scheme for one-time settlement (OTS) of their dues.

Accordingly, MOP communicated (April 2002) to the Government of West Bengal (GOWB), the scheme for OTS of dues of Rs 1,850.62 crore of West Bengal State Electricity Board (Board). The cut-off date for reckoning outstanding payments was 30 September 2001. The scheme, *inter alia*, envisaged that-

- GOWB would issue tax-free bonds of Rs 1,850.62 crore through Reserve Bank of India to CPSUs.
- To ensure prompt payment of bills thereafter, the Board was to open in favour of CPSUs, irrevocable letters of credit (LCs) equal to 105 *per cent* of their average monthly billing for the preceding 12 months by 30 June 2002. MOP also directed (May 2002) the Board to take immediate action to open the LCs, if not already done. The Board was to operate these LCs without default by 31 December 2002 in order to receive a cash incentive[ϕ] of two per cent of nominal value of bonds issued, from the respective CPSUs.

GOWB issued (August 2003) bonds aggregating Rs 1,850.62 crore in favour of four[Ψ] CPSUs including Damodar Valley Corporation (DVC-Rs 589.16 crore) and National Hydro-electric Power Corporation Limited (NHPC-Rs 6.72 crore).

The average monthly billing during April 2001 to March 2002 of DVC and NHPC was Rs 14.63 crore and Rs 2.05 crore respectively, working out to aggregate LCs of Rs 17.50[↲] crore.

The banks agreed to open LCs against fixed deposits. Though the Board held Rs 29.49 crore in fixed deposit between November 2001 and April 2002, yet

---

[ϕ] Clause 13.3 of the scheme

[Ψ] National Thermal Power Corporation Limited, Powergrid Corporation of India Limited, Damodar Valley Corporation, National Hydro-electric Power Corporation Limited

[↲] At 105 *per cent* of average monthly billing, DVC- Rs 15.36 crore and NHPC-Rs 2.14 crore no LCs were opened in favour of DVC or NHPC by 30 June 2002. The Board opened LCs of rupees six crore and rupees eight crore with UCO Bank in favour of DVC only in June 2003 and January 2004 respectively. No LC, however, had been opened in favour of NHPC till date (September 2004). The period for opening LCs to avail incentive had expired in June 2002.

Consequently, the Board failed to avail incentive of Rs 11.50 crore from DVC (Rs 11.41[ℵ] crore) and NHPC (rupees nine lakh), even after paying LC charges of Rs 42 lakh.

The Government/ Board stated (April 2004) that the amount at Rs 29.49 crore as mentioned by audit was capital fund and the capital fund could not be offered to the bank as security for LC.

The contention of the Board is not acceptable as : (a) the LC for rupees eight crore opened in favour of DVC during January 2004 by earmarking rupees eight crore from the fixed deposit of Rs 10.54 crore was also a capital fund, and, (b) for availing incentive of Rs 11.50 crore, the Board had to maintain LC of Rs 17.50 crore for six months only.

## 4.18 Potential loss due to failure to prevent pilferage of electricity

**Failure of the Board to exercise internal checks enabled errant consumers to pilfer 5.875 million units power leading to risk of potential loss of revenue of Rs 4.56 crore besides interest of Rs 1.09 crore thereon.**

West Bengal State Electricity Board (Board) had been supplying power to Krishna Chemicals Private Limited (KCL), Howrah since November 1996 from its Ranihati sub-station. Under Indian Electricity Rules, 1956, the Board was responsible to review and test the consumers' installations for assessing the actual consumption of power with reference to connected load.

**The Board's failure to monitor power consumption by thieving led to risk of loss of revenue of Rs 4.56 crore besides interest of Rs 1.09 crore thereon.**

Audit observed that against the contractual demand of 150/ 175 KVA, KCL actually drew power at maximum demand ranging from 303 to 668 KVA during December 1996 to August 2000. The engineers of Howrah (Distribution) circle, who regularly took meter reading at KCL's premises, restricted their inspection up to metering installations only. They failed to inspect and test the entire installations to ensure the correctness of connected load, assess the power requirement of KCL *vis-à-vis* recorded data of consumption, reconcile the monthly consumption with power requirement to operate this type of industry, check abnormal consumption patterns and to verify the load survey report with sub-station log sheets.

Since February 2001, the drawal demand of KCL drastically reduced and stood at 131 KVA in June 2002. The Board undertook (July 2002) a special raid at KCL's premises and unearthed a concealed transformer of one MVA capacity, installed by KCL through which power was unauthorisedly supplied

[ℵ] Two *per cent* of Rs 595.88 crore, DVC-Rs 589.16 crore and NHPC-Rs 6.72 crore i.e. Rs 11.92 crore less LC charges at 0.4 per cent per month for six months – Rs 0.42 crore to four other adjoining units including to a Board's consumer viz. Ashoka Roller Flour Mills (ARFM) having a contract demand of 125 KVA.

The Board also inspected (August 2002) the premises of ARFM and detected unauthorised installation of another transformer of similar capacity, feeding power to these units. The Board disconnected (July/ August 2002) supply to KCL and ARFM after which, the current in the supplying 11 KV feeder dropped by 40 to 50 amperes indicating pilferage of about 1,000 KVA power by KCL and ARFM.

Accordingly, the Board raised (August 2002/ March 2003) two bills aggregating Rs 4.56 crore on KCL (Rs 2.22 crore) and ARFM (Rs 2.34 crore) for the period from August 2001 to July 2002 for theft of energy of 5.875 million units. KCL challenged the bill in the Hon'ble High Court who directed (September 2002) KCL to pay Rs 60 lakh immediately. But no amount was received till date (August 2004). ARFM also did not pay anything and filed (August 2002) suit, praying injunction against disconnection.

Thus, due to failure of the Board to take adequate care in checking the whole metering installation and to enforce internal control mechanism, the Board faces the risk of loss of revenue of Rs 4.56 crore besides interest of Rs 1.09 crore thereon.

The Government/ Board stated (May 2004) that with the existing infrastructure it was not possible to verify the load survey report with sub-station log sheets as the relevant feeder fed five bulk consumers, and 27 distribution transformers. The contention is not tenable because : (a) the sub-station log sheets indicate the quantum of flow of current in terms of ampere. So, any change in load pattern (i.e. connecting or disconnecting a bulk consumer) will be immediately reflected through increase/ decrease in flow in current, and (b) since load of one MVA could be given to bulk consumers only and not to any of the distribution transformers, only five bulk consumers were to be checked which was well within the capacity of infrastructure available.

### *4.19 Extra expenditure on procurement of transformers*

**West Bengal State Electricity Board incurred an extra expenditure of Rs 60 lakh due to its failure to place repeat order for purchase of three transformers within the validity period of offer.**

In response to the open tender invited (August 2001) for procurement of five 50 MVA power transformers, the Board of Members decided (November 2002) to place the order on Marsons Limited (Marson) the lowest tenderer at Rs 1.02 crore per transformer. The Board, however, directed to place the order for supply of two transformers first and the balance after successful delivery of these two transformers and after having satisfactory performance report of one 50 MVA transformer delivered by Marson for installation at Berhampur sub-station against a trial order of June 2001. Accordingly, West Bengal State Electricity Board (WBSEB) placed

(December 2002) the order on Marson for delivery of first transformer within four months from the date of approval of drawings and the second one within 45 days thereafter. The order did not include any provision for placement of order for additional three transformers at the same rate.

**The Board incurred additional expenditure of Rs 60 lakh due to its failure to place repeat order within validity period.**

On receipt of the order, Marson extended (02 January 2003) the validity of their offer, up to 31 January 2003 for placement of order for balance three transformers. WBSEB, however, reiterated its decision to Marson on 03 January 2003 that the order for three transformers would be placed at the same rate after successful completion of the order (December 2002) and on receipt of satisfactory performance report of one 50 MVA transformer at Berhampur sub-station. Marson did not agree and requested WBSEB to place the order for balance three transformers within 31 January 2003.

Audit observed that one 50 MVA transformer, supplied earlier by Marson at Berhampur sub-station, had not developed any defects since commissioning (September 2002). Further, due to delay in approval (May and June 2003) of drawings for the first transformer by WBSEB against the order of December 2002, Marson supplied the first transformer on 13 November 2003 and commissioned the same on 12 February 2004, while the second transformer was ready for despatch only on 30 April 2004.

Meanwhile, in order to meet the emergent situation WBSEB placed (December 2003) another order on Marson for supply of balance three transformers at the same price (Rs 1.02 crore per transformer) of earlier order (December 2002). Marson rejected the order on the ground of expiry of extended validity period (January 2003) of the offer and also having no mention of placement of repeat order in the original order (December 2002). Ultimately, WBSEB cancelled (May 2004) the order and purchased (May 2004) three transformers from Marson after inviting fresh tender (March 2003) at a total cost of Rs 3.66 crore including excise duty and sales tax (at the rate of Rs 1.22 crore per transformer).

Thus, owing to failure of WBSEB to include a provision in the purchase order for placement of repeat order at the same rate as well as to place the repeat order for balance three transformers within the extended validity period of the offer, WBSEB incurred an extra expenditure of Rs 60 lakh on procurement of three transformers.

The matter was reported to the Government/ Board (June 2004), their replies had not been received (September 2004).

## WEST BENGAL FINANCIAL CORPORATION

### *4.20 Avoidable payment of interest on income tax*

**West Bengal Financial Corporation suppressed income of Rs 1.14 crore in its income tax return and consequently, paid avoidable interest of Rs 44.46 lakh with liability of Rs 39.90 lakh towards penalty.**

According to the provisions[1] of Income Tax Act, 1961, State Financial Corporations are liable to pay income tax on profits and gains from business for a particular financial year, after adding back (a) bad debts charged to profit and (b) inadmissible capital expenditure written off, limiting provision for bad and doubtful debts to the admissible limit[Φ] and thereafter creating specific reserve[∞] from the total income for the year.

West Bengal Financial Corporation (Corporation) charged bad debts Rs 17.34 lakh and appropriated rupees two crore as term deposit redemption reserve (Rs 1.50 crore)[®] and reserve for doubtful debts (Rs 50 lakh) to arrive at the profit from business for the year 1997-98. But the Corporation filed adefective income tax return for the financial year 1997-98 (assessment year 1998-99) on 19 November 1998 without adding back inadmissible term deposit redemption reserve, reserve for bad and doubtful debts and bad debts written off. The provision for bad and doubtful debts of Rs 17.78 lakh was not claimed as deduction under the Act, ibid. The Income Tax Department (ITD) assessed (September 1999) the tax at Rs 29.16 lakh on declared income of Rs 83.31 lakh and refunded Rs 3.74 lakh with interest of Rs 0.67 lakh to the Corporation after adjustment of advance tax of Rs 32.90 lakh.

Subsequently, the Corporation revised (November 1999) the taxable income (assessment year-1998-99) at Rs 89.05 lakh after adding bad debts written off (Rs 17.34 lakh) and claiming deduction of only Rs 7.78 lakh as provision for doubtful debts and submitted (November 1999) the revised tax return to ITD. This time too, the Corporation failed to add back inadmissible reserve of rupees two crore leading to suppression of taxable income to the extent of Rs 1.14 crore. On scrutiny of the revised return, ITD ultimately initiated (June 2001) income escapement proceedings against the Corporation with the instruction to submit the revised return after making necessary rectification. After lapse of 20 months, the Corporation intimated (March 2003) the ITD that return of November 1999 be treated as final. Accordingly, the date of filing the return was construed as 4 March 2003. ITD reassessed (March 2003) the income and assessed tax of Rs 71.07 lakh. Consequently, ITD demanded Rs 87.05 lakh (after deduction of advance tax of Rs 32.90 lakh) as tax including interest of Rs 9.54 lakh for delayed submission of return and interest of Rs 34.92 lakh for short payment of tax. The Corporation paid the amount in April 2003.

---

[1] Sections 28, 36(1) (vii), 36(1) (viia), 36(1) (viii), 36(2) (v) & 37 (i) of the Act, *ibid*

[Φ] Not exceeding 5 *per cent* of total income

[∞] Not exceeding 40 *per cent* of the profit

[®] An inadmissible capital expenditure

Had the Corporation paid tax of Rs 71.08 lakh instead of Rs 32.90 lakh, it could have avoided payment of interest of Rs 44.46 lakh, along with liability to pay penalty of Rs 39.90 lakh imposed (September 2003) by ITD for concealment of taxable income.

The Corporation stated (April 2004) that disallowed provision of Rs 1.50 crore for 'term deposit redemption reserve' was added back to income in the financial years 1999-2000 and 2000-01 against which higher taxes were paid. The Corporation was entitled to refund of the excess tax paid with interest when assessment for financial years 1999-2000 and 2000-01 would be completed. The contention is not tenable since the interest on refund pertains to subsequent financial years. Moreover, against the provision of tax liability of Rs 71.08 lakh for 1997-98 in accounts, the Corporation paid only Rs 32.90 lakh indicating suppression of income and withholding of income tax.

The matter was reported to the Government (March 2004), their replies had not been received (September 2004).

## CALCUTTA STATE TRANSPORT CORPORATION

### *4.21 Loss of interest due to inept cash management*

**Lack of monitoring over transfer of fund from different current accounts to main current account led to premature withdrawal of fixed deposits with consequential loss of interest of Rs 31.34 lakh.**

With a view to ensure effective management of fund, Calcutta State Transport Corporation (Corporation) made (July 2001) an arrangement with Syndicate Bank (SB) to open a twin-facility account i.e. operation of current-cum-Subidha short term fixed deposit account (SSFDA). Accordingly, the Corporation opened (July 2001) 12 current accounts in SB branches nearest to its 12 depots along with a main current account at Salt Lake branch of SB which extended the twin-facility arrangement. The modalities for operation of these 12 current accounts and the main current account were as follows :

- Depot cashiers were to deposit sales proceeds in their respective SB branches daily. On the following day, the SB branches were to transfer the entire balance to the main current account at Salt Lake branch after retaining Rs 10,000 in each account.

- A minimum balance of Rs 70 lakh was to be maintained in main current account to meet expenses. In the event of shortfall, amount was to be transferred automatically from SSFDAs to main current account in 'last in, first out method[φ]' to maintain the minimum balance. Any balance in excess of Rs 70 lakh in main current account was to be transferred to SSFDA.

[φ] Amount last transferred to SSFDAs was to be remitted first to main current account

Scrutiny of bank statements of current accounts relating to six depots® (July 2001 to July 2003) revealed that instead of transferring depot current account balances beyond Rs 10,000 on the next day, the branches attached with each depot remitted balances to the main current account in 15 cases once a month, in 43 cases fortnightly, in 33 cases thrice a month and in 29 cases weekly.

The unremitted balances (excluding minimum daily balance) ranged from Rs 70.04 lakh to Rs 2.20 crore. Since these amounts were not remitted, the balance in the main current account fell below the minimum balance of Rs 70.00 lakh. Consequently, Salt Lake branch of SB prematurely withdrew and transferred (October 2001-July 2003) Rs 12.16 crore from 17 SSFDAs to the main current account so as to maintain the minimum balance of Rs 70 lakh.

Despite receipt of all bank statements, the management not only failed to monitor the timely remittance of fund from branches to main current account but also did not follow last-in-first out method of withdrawing of SSFDAs. Consequently, the Corporation withdrew from old SFDAs of Rs 12.16 crore instead of new ones leading to loss of interest of Rs 31.34 lakh.

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

### *4.22 Absence of cash management*

**West Bengal Scheduled Castes and Scheduled Tribes Development and Finance Corporation sustained loss of interest of Rs 29.62 lakh due to failure to invest surplus fund in short-term deposits as well as lax internal control over term deposits.**

West Bengal Scheduled Castes and Scheduled Tribes Development and Finance Corporation (Corporation) was to undertake industrial and commercial activities for the welfare of members of scheduled castes and scheduled tribes. To this end, it was imperative that the Corporation should prepare periodic cash forecasts to assess the requirement of fund, identify surplus fund and invest it judiciously.

Audit observed (September/ October 2003) that :

**(a)** Branch offices of the Corporation maintained funds under different heads in savings bank accounts earning interest at four *per cent* per *annum*. Test check of fund pertaining to three∞ heads at four® branches showed that amounts aggregating Rs 5.17 crore, Rs 6.96 crore, Rs 3.59 crore and Rs 3.33 crore remained unutilised in savings account during April to

® Lake, Belghoria, Paikpara, Thakurpukur, Taratala and Garia.

∞ Establishment, NSFDC & Other Authorities

® Barasat, Midnapur, Krishnagar & Balurghat

September 2001, October 2001 to March 2002, April to September 2002 and October 2002 to March 2003 respectively. Had these amounts been invested in short-term deposit at 6.25 *per cent* per *annum*, the Corporation could have earned additional interest of Rs 21.44 lakh.

Management stated (April 2004/ August 2004) that the Corporation was contemplating to open savings bank accounts with the facility of automatic transfer of fund in excess of certain amount to fixed deposit to earn interest.

**(b)** The Corporation issued (March 2001) from its savings bank account, a cheque of rupees three crore in favour of Bank of Baroda (BOB) towards short-term deposit of 181 days bearing interest of 9.5 *per cent* per *annum* to earn Rs 14.13 lakh. The Corporation, however, failed to obtain the term deposit certificate from BOB for which no reason was on record. After lapse of seven months, the Corporation noticed (October 2001) that the cheque had not been encashed and sought reasons from BOB for non-encashment. BOB stated (November 2001) that the cheque could not be cleared due to difference in signature of authorised signatory. Consequently, rupees three crore remained in the savings account earning interest at the rate of only four *per cent* (Rs 5.95 lakh) leading to loss of interest of Rs 8.18[©] lakh.

The Corporation stated (April 2004) that when the matter was discovered in October 2001, the Corporation no longer had surplus fund for investment in short-term deposit. The fact, however, remains that lax internal control over term deposits as well as negligence by officials concerned led to loss of interest. No responsibility was fixed.

The matter was reported to the Government (July 2004), their reply had not been received (September 2004).

## General

### 4.23 Idle wages to employees of non-working Government companies

**Inordinate delay in closing down eight non-working companies resulted in payment of idle wages of Rs 66.85 crore.**

**4.23.1** In West Bengal there were 10 non-working Government companies as of 31 March 2004 in which State Government had invested Rs 222.06 crore. Of these 10 non-working companies, the undertakings of three companies *viz.* IPP[λ], WBSIDCL[♠] and KSGL[⊗] were bought/ taken over between May 1973 and September 1988 by the State Government from private entrepreneurs with a view to making these sick units viable as well as to protect the employment of existing employees. The balance seven companies were incorporated

[©] Rs 14.13 lakh less Rs 5.95 lakh
[λ] IPP Limited
[♠] West Bengal Sugar Industries Development Corporation Limited
[⊗] Krishna Silicate and Glass (1987) Limited

between April 1974 and August 1989 as Government companies with a view to achieve the objectives as specified in their Memoranda of Association.

**Idle wages of Rs 66.85 crore was paid due to abnormal delay in closing down non-working companies.**

All these non-working companies failed to achieve their objectives due to structural unviability, lack of modernisation/ renovation, technological obsolescence, shortage of working capital, high incidence of employees' cost. Consequently, accumulated losses of eight[ϕ] companies aggregating Rs 319.71 crore eroded their paid-up capital of Rs 22.56 crore as per their latest available accounts. However, inordinate delay in closing down these non-working companies led to payment of idle wages, as discussed in succeeding paragraphs.

### 4.23.2 IPP Limited

Indian Paper Pulp Company Limited (IPPCL), set-up in April 1918 in the private sector, was engaged in the production of different kinds of quality paper by using bamboo and hardwood. Due to poor quality of papers manufactured and non-replacement of old plant and machinery, IPPCL became gradually sick from the sixties. Ultimately, the State Government purchased (August 1981) the assets of IPPCL at Rs 4.34 crore to revive the company as well as to protect employment of its 2,000 employees. A new company in the name of IPP Limited (IPP) was incorporated (July 1985) as a Government company to take over the assets of IPPCL.

Mention was made in Paragraph 2B.7 to 2B.7.2 of the Audit Report (Commercial) -1998-99 that during post-takeover period the viability of IPP did not turn around due to low production, technological obsolescence and acute shortage of working capital. Consequently, IPP incurred losses aggregating Rs 142.72 crore as of 31 March 2003 against the paid up capital of Rs 50 lakh. IPP stopped production in August 2000. The Government decided to close down IPP only in May 2003 after payment of retirement benefits of Rs 14.71 crore to 679 employees in January 2004 under Early Retirement Scheme (ERS).

Due to inordinate delay in closing down IPP, idle wages of Rs 22.25 crore were paid to 895 - 679 employees during August 2000 to December 2003.

### 4.23.3 Sundarban Sugarbeet Processing Company Limited

Mention was made in Paragraph 4A.B.1 of the Audit Report (Commercial)-2000-01 that Sundarban Sugarbeet Processing Company Limited **(**SSPCL) stopped production of alcohol in November 1990 due to its failure to instal an effluent treatment plant in its factory and consequent payment of idle wages of Rs 87.43 lakh to employees during December 1990 to March 2001. Only in May 2003, the State Government ordered closure of SSPCL after payment

[ϕ] Out of 10 companies, Lime Light Industries (Private) Limited suspended production in September 1988 and its assets were taken over by West Bengal Financial Corporation in March 1989 for default in repayment of loan, while the Board of Directors of WBWDC had recommended closure of the Company in February 1996. These two companies were not considered as no idle wages were paid.

(January 2004) of retirement benefits of Rs 59.47 lakh to 62 employees under ERS.

Thus, inordinate delay of more than 13 years in closing down SSPCL resulted in payment of idle wages of Rs 1.37 crore to 72 - 62 employees during December 1990 to December 2003.

### 4.23.4 The West Bengal Livestock Processing Development Corporation Limited

The West Bengal Livestock Processing Development Corporation Limited (WBLPDCL), incorporated (April 1974) to create facilities for efficient, modern and hygienic slaughter of animals, constructed an abattoir at Durgapur. Mention was made in Paragraph No. 4A.12.1 of the Audit Report (Commercial)-2000-01 that WBLPDCL closed the abattoir project at Durgapur in June 1984 due to its failure to persuade local butchers to utilise the facilities and it also failed to implement another abattoir project at Andul, Mourigram. Subsequently, these projects were handed over (July/ August 1984) to a private party.

Though WBLPDCL was inoperational for the past 20 years, the Government did not take any action to wind up the Company so far, leading to payment of idle wages of Rs 1.81 crore to 18-16 employees during July 1984 to March 2004.

### 4.23.5 Pulver Ash Projects Limited

Pulver Ash Projects Limited (PAPL) was incorporated in August 1984 to produce fly-ash bricks using dry fly-ash from Bandel thermal power station. PAPL started commercial operation in February 1994 with an annual installed capacity of 2.40 crore bricks.

Against the installed capacity of 2.40 crore bricks, the actual production drastically reduced from 50.37 lakh in 1994-95 to 18.94 lakh in 2001-02 with an annual average capacity utilisation of 16 *per cent* due to deficient technology, poor quality of products, lack of market and shortage of working capital. Due to its failure to pay electricity dues, West Bengal State Electricity Board disconnected supply on 26 August 2002 and the production was immediately suspended. Due to poor operating performance, PAPL had been incurring losses since inception and as per latest accounts accumulated loss stood at Rs 6.32 crore against the paid up capital of Rs 3.02 crore as of 31 March 2001.

Though production was stopped for two years, Government did not take action to close down PAPL leading to payment of idle wages of Rs 53.53 lakh to 115 employees for the period from August 2002 to March 2004.

### 4.23.6 Krishna Silicate and Glass (1987) Limited

With a view to rehabilitating the sick Krishna Silicate and Glass-Works Limited, a private sector company manufacturing glass and glass-wares as well as to protect the employment of 1,200 employees, the State Government set up (October 1988) Krishna Silicate and Glass (1987) Limited (KSGL), a Government company to acquire and take over the business of the erstwhile sick company.

Mention was made in Paragraph 2B.5 of the Audit Report (Commercial) – 1998-99 that post takeover, the performance of KSGL did not turn around due to poor capacity utilisation (eight to 25 *per cent* during 1989-92) and labour problem. Production was stopped in July 1991 leading to payment of idle wages of Rs 10.58 crore to employees during July 1991 to March 1999. For its revival, KSGL decided (January 1995) to set-up a glass container and glazed tiles project at Baruipur by July 1999 and April 2000 at a cost of Rs 2.70 crore and Rs 5.15 crore respectively.

Audit observed that the glass container project started production in June 2000 and produced 915.03 tonnes only during June 2000 to March 2001 against installed capacity of 7,200 tonnes per *annum* due to severe refractory erosion problems, poor quality of production as well as lack of preparedness, planning, adequate technical application and management control, as attributed by the management. KSGL stopped the production of glass containers in August 2001. Further, the tile plant with annual production capacity of 7,500 tonnes was not commissioned so far (September 2004) due to shortage of fund for installing balancing equipment and working capital requirement. The Government took no action either to re-open the plants or to wind up the Company leading to payment of idle wages of Rs 8.49 crore during August 2001 to March 2004.

### 4.23.7 West Bengal Sugar Industries Development Corporation Limited

The State Government formed (May 1973) West Bengal Sugar Industries Development Corporation Limited (WBSIDCL) to take over the assets of the private sick National Sugar Mill Limited so as to maintain employment and revive the sugar mill. WBSIDCL was engaged in production of white sugar at Ahmedpur.

Mention was made in Paragraph 2B of the Audit Report 1995-96 that failure of the mill to procure sugarcane, lack of renovation and modernisation of the mill and high incidence of cost of materials led to underutilisation of crushing capacity and low recovery of sugar during 1991-96. Thereafter, the position had become worse and the utilisation of crushing capacity was as negligible as 0.46 *per cent* on an average during 1999-2002 and ultimately, production was stopped in November 2002. Since then the Government did not take any action either to re-open the mill or to wind up WBSIDCL, leading to payment of idle wages of Rs 3.95 crore to 572 employees during November 2002 to March 2004. Management stated (July 2004) that 'inoperative situation was under review of the Government to reach a decision about its present feasible scope'.

### 4.23.8 Webel Video Devices Limited

Webel Video Devices Limited (WVDL) was engaged in production of black and white picture tubes since November 1980. Mention was made in Paragraph 2A.6 K of the Audit Report (Commercial)-2000-01 that WVDL suffered losses due to low capacity utilisation, production bottlenecks, labour troubles, high cost of production and ultimately production was discontinued in December 1997 with consequential payment of idle wages of Rs 5.98 crore till March 2001.

Government did not take any action till February 2004 when it decided to close down WVDL after adopting Early Retirement Scheme (ERS) for all employees. Notice for ERS was issued (July 2004) by WVDL, but no payment under ERS was released so far (September 2004). Due to delay in closing down even after discontinuation of activities for more than six years, idle wages of Rs 7.53 crore were paid to 160-158 employees during 2001-04.

### 4.23.9 Webel Carbon and Metal Film Resistors Limited

Webel Carbon and Metal Film Resistors Limited (WCMFRL), incorporated in May 1980, was engaged in the production of carbon and film resistors. Mention was made in Paragraph 2A.6.C of the Audit Report (Commercial)-2000-01 that WCMFRL discontinued its operation since April 1996 due to availability of imported film resistors at cheaper rate with consequential payment of idle wages of Rs 1.98 crore till March 2001.

Government decided only in February 2004 to close down WCMFRL after adopting ERS for employees. Notice for ERS was issued (July 2004) by WCMFRL, but no payment under ERS was released so far (September 2004). Thus, inordinate delay in closing down WCMFRL even after closure of activities in May 1996 resulted in payment of idle wages of Rs 1.50 crore to 48 employees during 2001-04. Management stated (June 2004) that re-structuring of the Company was under finalisation by the Government.

The matter was reported to the Government (June 2004), their replies had not been received (September 2004).

## 4.24 Delay in finalisation of accounts by PSUs

***Statutory provisions for finalisation of accounts***

**4.24.1** According to the provisions of Sections 166, 210, 230, 619 and 619-A of the Companies Act, 1956, accounts of a Government company for each financial year are required to be prepared and approved by the Board of Directors (BOD) and handed over to the Statutory Auditors (SAs) for audit. The Comptroller and Auditor General of India (CAG) is empowered to undertake audit on the audited accounts and supplement the SAs report. The BOD is to lay the audited accounts, Statutory Auditors' report, comments of CAG and other specified documents in the Annual General Meeting (AGM) of the shareholders within six months from the close of the financial year.

Within three months of AGM, the State Government should place the Annual Report of each Government company before the State Legislature together with a copy each of the report of the Statutory Auditors and supplement thereon by the CAG. Similarly, in respect of statutory corporations, their accounts are finalised, audited and presented to the Legislature as per provisions to their respective Acts.

***Extent of arrears***

**4.24.2** Out of 74 Government companies and 10 statutory corporations, only 30 companies and two corporations finalised their accounts till 2003-04 as of 30 September 2004. It would be seen from **Annexure-28** that accounts of eight companies were in arrears for two to three years and of six companies for four to seven years. Accounts of Limelight Industries Private Limited (LIPL) are due for 20 years. LIPL has ceased to exist as all assets had been acquired and sold by West Bengal Financial Corporation due to non-payment of their loans. Similarly, the accounts of three statutory corporations were in arrears for two years and of two corporations for four to eight years. This revealed the ineffectiveness of steps taken by Government/ management to avoid delays and ensure timely finalisation of accounts.

A review of system of preparation of accounts of six[φ] companies and two[©] statutory corporations, whose accounts were in arrears for four to eight years, identified the following reasons for abnormal delays and failure of the BOD/ management in finalising accounts in time.

***Delays in preparation of accounts***

**4.24.3** In eight PSUs, the BODs took on an average seven to 101 months after finalisation of the previous year's accounts to prepare the subsequent accounts. Consequently, these PSUs failed to clear their arrears, as detailed in **Annexure-29**. The reasons are analysed below :

**The delays in preparation of accounts were attributable to absence of action plan for pulling up arrears, lack of qualified personnel, time frame for preparation of accounts through external agencies and absence of accounting manual.**

- Despite substantial arrears, none of these companies had chalked out an action plan to pull up arrears in accounts in a time bound manner.
- Two companies (WBSLIDC, MCML) and two corporations (NBSTC and WBMDFC) lacked qualified personnel and infrastructure in accounts wing thereby causing delays in pulling up arrears. Further, frequent changes of Managing Director and other directors in WBSLIDC worsened the situation.
- To pull up arrear of accounts, four companies (WBHDC, WBTDC, WBDPDC and WBSLIDC) engaged firms of Chartered Accountants at

[φ] Mayurakshi Cotton Mills (1990) Limited (MCML), West Bengal State Leather Industries Development Corporation Limited (WBSLIDC), West Bengal Handicrafts Development Corporation Limited (WBHDC), West Bengal Dairy and Poultry Development Corporation Limited (WBDPDC), West Bengal Sugar Industries Development Corporation Limited (WBSIDC), West Bengal Tea Development Corporation Limited (WBTDC)

[©] North Bengal State Transport Corporation (NBSTC), West Bengal Minorities Development & Finance Corporation (WBMDFC) a cost of Rs 13 lakh. However, since these companies did not specify time schedules for completion of accounts, the firms inordinately delayed in preparing accounts. Managements did not review the performance of these firms or issue any directions for expeditious preparation of accounts.

These PSUs had following system deficiencies in accounting areas as detailed below-

| Nature of deficiencies/ irregularities | Name of the Company/ Corporation |
|---|---|
| Absence of accounting manual | MCML, WBSLIDC, WBHDC, WBDPDC, WBSIDC & WBTDC, WBMDFC, NBSTC |
| Non/ incomplete maintenance of fixed asset register/ subsidiary and control ledgers | MCML, WBSLIDC, WBHDC, WBSIDC, NBSTC, WBMDFC |
| Non-preparation of monthly trial balance | MCML, WBSLIDC, WBHDC, WBDPDC, NBSTC, WBMDFC |
| Non-maintenance of cost sheet and cost records | MCML, WBSIDC, WBTDC, WBSLIDC |
| Non-preparation of segment-wise profitability | WBSIDC, WBDPDC, WBTDC |
| Non-reconciliation of bank accounts and absence of physical verification of cash | MCML, WBSLIDC, WBHDC |

Despite these persistent deficiencies in the system of accounting, managements did not take any corrective action, which further delayed preparation of accounts.

The management of WBDPDC, WBTDC, WBSIDC and WBSLIDC committed (July/ August 2004) that the arrear accounts would be pulled up by May 2005 (WBDPDC), June 2005 (WBTDC), August 2005 (WBSIDC) and November 2005 (WBSLIDC). Further, the Chief Secretary directed (February 2003/ March 2004) departmental secretaries of all the concerned departments to evolve a time bound action plan for liquidating arrears of accounts.

***Delays in completion of audit by Statutory Auditors***

**4.24.4** Statutory Auditors (SAs) are required to complete audit within three months from the date of acceptance of their appointment or the close of the financial year, whichever is later. However, SAs took four of six months (MCML), three to 13 months (WBSLIDC), seven to 28 months (WBDPDC), five to 10 months (WBSIDC) and two to six months (WBTDC) for completion of audit of accounts for 1995-2000. These delays arose due to lack of coordination between SAs and management, failure of the management to furnish information and to submit accounts in time.

***Delays in holding Annual General Meetings and placement in State Legislature***

**4.24.5** An AGM of a company should be called by giving not less than 21 days' notice in writing or a shorter notice, if so consented by all members entitled to vote. Within three months of AGM, the State Government should place the Annual Reports before the State Legislature. The summarised details in connection with holding of AGM and placement of annual reports before the State Legislature are given in **Annexure-30**. It was observed that these Companies took 32 to 235 days in holding their AGMs. Further, the State Government failed to lay the Annual Reports in the State Legislature within the stipulated period.

***Steps taken by State Government***

**4.24.6** The State Government exercises control over the Companies through the concerned administrative departments and the Finance Department. In terms of Memorandum and Articles of Association of these companies, the State Government has the power to issue directives in the interest of the Companies. To fulfil its obligations, the State Government was expected to take corrective steps to ensure that the accounts of the companies were finalised in time. Administrative departments have to ensure that the accounts are finalised and adopted by the companies in the AGM within the prescribed time schedule.

***Impact of delays in pulling up arrears***

**4.24.7** Delays in preparation of accounts is a serious breach of financial discipline. Besides violating provisions of the Companies Act, 1956 and other statutes, the delay also opens the system to risk of fraud and leakage of public money as substantial Government investment of Rs 360.27 crore in these PSUs remained outside public scrutiny and Legislative control.

The matter was reported to the Government/ managements (June 2004), replies of the Government/ management (WBHDC/ MCML/ NBSTC/ WBMDFC) had not been received (September 2004).

## West Bengal State Electricity Board, The Durgapur Projects Limited, West Bengal Power Development Corporation Limited and West Bengal Rural Energy Development Corporation Limited

## 4.25 Deficiencies in internal control and internal audit system

### Internal control

**4.25.1 Internal control** is a management tool used to provide reasonable assurance that the organisation fulfils accountability obligation, promotes orderly and efficient operation, safeguards assets against fraud/ waste, adheres to applicable laws and management policies and discloses reliable financial data through timely reporting. **Internal Audit** is recognised as an independent appraisal activity within an organisation to examine and evaluate the activities of the organisation. Besides assisting in financial control, it is expected to help in the achievement of organisational objectives by improving the effectiveness of control and governance processes within the organisation.

To this end, internal control system should comprise evolving of long and short range planning for achievement of objectives, periodical review of plans, defining controls for each responsibility area and their evaluation, designing of systems and review of the system and proper operating and accounting procedures to ensure the accuracy and reliability of accounting data.

The effectiveness of internal control systems in West Bengal State Electricity Board (WBSEB), The Durgapur Projects Limited (DPL), West Bengal Power Development Corporation Limited (WBPDCL) and West Bengal Rural Energy Development Corporation Limited (WBREDC) have been examined and following deficiencies noticed in audit in the following areas :

***Achievement of objectives***

**4.25.2** No corporate plan with reference to objectives has been spelt out by any of these power utilities. Though the objectives were translated into operational targets by all power utilities except **DPL**, the achievements were never analysed in order to assess the shortfalls and reasons thereof for taking corrective actions**.** **DPL** had not fixed any operational targets to measure its actual performance.

***Organisational structure***

**4.25.3** The organisational structure/ chart defines the actual authority and responsibility of key positions. However, in case of **WBSEB, DPL** and **WBPDCL,** parameters of control for each responsibility area are not clearly identifiable. In **WBREDC**, no organisational structure defining the authority and responsibility in different positions, job descriptions of key positions and delegation of power was evolved.

***Control environment***

**4.25.4** None of the power utilities prescribed internal control manual defining a list of active and identifiable controls in physical and financial terms.

***Revenue management***

**4.25.5** As per provisions of the Act/ Rules, **WBSEB** was to obtain security deposits from the consumers equivalent to three months' estimated consumption of electricity at the prevailing rates before effecting service connection. Energy bills are raised within seven days of the end of the consumption months allowing consumers 15 to 20 days' time for payment of the bills. If payments are not made **WBSEB** is to serve a disconnection notice allowing 15 days' time for depositing the amount. In case of default the lines are to be disconnected. Thus, there is little scope for accumulation of arrears.

Audit observed that dues against permanently disconnected consumers rose from Rs 26.55 crore in 1999-2000 to Rs 90.78 crore® in 2003-04 as dues were allowed to be accumulated beyond the amount of security deposit held by **WBSEB** against the consumers and timely actions not taken for disconnecting the lines. **WBSEB** made a provision of Rs 74.71 crore till March 2004 against total dues of Rs 90.78 crore while Rs 19 lakh was written off during last five years ending March 2004. Similarly, **DPL** had outstanding dues of Rs 11.35 crore, against permanently disconnected consumers and made a provision of Rs 1.57 crore for doubtful recovery till March 2004.

Thus, monitoring of recoveries against permanently disconnected consumers was ineffective.

***Theft of energy***

**4.25.6** In order to plug loss of revenue by theft/ pilferage, the Security and Vigilance Wing of **WBSEB** conducted periodical inspection in consumers' premises. During 1999-2003, the number of inspections increased from 352 in 1999-2000 to 17,233 in 2002-03 while the realisation against pilferage increased from rupees one crore in 1999-2000 to Rs 2.42 crore in 2002-03. Consequently, against loss of total assessed revenue on account of theft of Rs 43.46 crore during the four years, the actual amount recovered was only Rs 3.80 crore (nine *per cent*). The reasons for non-recovery of balance amount of Rs 39.64 crore were not on record. Thus, recovery of revenue against theft was not effective.

***Material management***

**4.25.7** Audit observed the following deficiencies in material management:

- None of the power utilities, except **WBSEB** introduced (June 1978) material manual. **WBSEB** did not, however, revise the manual for the last 26 years.
- None of four power utilities introduced material/ stores budget.
- No system of determination of maximum, minimum, reordering level of materials /stores, ABC analysis of inventory, reconciliation of priced stores ledger with quantitative stores ledger was evolved by any of the power utilities.
- In absence of periodical reconciliation there existed a significant variation of Rs 6.36 crore as on March 2004 between priced stores ledger and quantitative stores ledger in **WBSEB**. Further, laxity in investigation of shortages/excesses found (1999-2000) on physical verification of stores in **WBSEB** led to non-adjustment of shortages of Rs 1.38 crore (March 2004).
- The accounts of WBSEB exhibited an inter unit balance of Rs 428.33 crore as on 31 March 2004. Materials worth Rs 61.36 crore issued during 1989 to 2004 to 193 units by Burdwan Regional Store

® After adjustment of security deposit.

and Central Store were awaiting final reconciliation (March 2004). In absence of such reconciliation, the possibility of pilferage/ defalcation can not be ruled out in audit.

- In absence of effective control over the issue of materials to contractors, materials valuing Rs 99.22 lakh issued to fabricators prior to 1990-91 and Rs 1.09 crore issued to parties on loan during 1986-2004 remained unadjusted (March 2004).
- There was no system of periodical determination of unserviceable/ damaged and non-moving stocks and their expeditious disposal in any of the power utilities. **WBSEB** had non-moving stock of Rs 2.41 crore (in two stores only) lying more than 10 years but no action was taken to dispose of the same so far (August 2004). Similarly, physical verification of stocks/stores conducted by **DPL** was not adequate. In 2002-2003, the **DPL** verified only four *per cent* of its total stock (1,534 out of 38,348 items) which was negligible in comparison to its total stock. In **WBREDC**, the physical verification of stores at its 18 units was conducted only once (2001-02) since inception.
- Lack of effective system of adjustment of advances against supplies led to accumulation of huge unadjusted outstanding advances of Rs 232.83 crore in **WBSEB** as on March 2004.

***System of accounts***

**4.25.8** Internal control on accounting of income, expenditure, assets and liabilities was ineffective as detailed in **Annexure-31**.

## Internal audit

**4.25.9 WBSEB** and **DPL** set up an independent internal audit department (IAD) in 1980-81 and 1968 respectively. Additional General Manager (F&A), **WBSEB**, assisted by two Senior Managers (F&A) and one Assistant Manager (F&A), heads the IAD and reports to Member (F&A), while IAD of **DPL** is headed by Additional Senior Manager who reports to the Secretary, DPL. **WBPDCL** and **WBREDC** engaged four (1999-2004) and eight (1999-2003) firms of Chartered Accountants for conducting internal audit at fees aggregating Rs 2.22 lakh and Rs 1.77 lakh respectively.

***Scope of work***

**4.25.10** Of four power utility units, **WBSEB** only adopted (February 2000) the internal audit manual (IAM). IAD is to carry out transaction audit[τ], efficiency-cum- performance audit of schemes/ projects and management audit[∝] as well as to coordinate with external auditors. The Board of Directors (Board) of **DPL** directed (May 1978) the IAD to function as an instrument of financial control to guard against extravagance. IAD however, mainly

[τ] Regularity and propriety of expenditure, revenue, stores, contracts, annual accounts

[∝] Organisational structures, its plans, objectives, operation and use of human resources confined itself to carrying out audit of hospital, administration section, commercial wing and finance and accounts section.

**4.25.11 WBPDCL** deployed internal auditors for the routine work during 1999-2004 such as, preparation of trial balance, bank reconciliation statements, checking of cash and bank transactions, physical verification of cash and stores. Similarly, internal auditors of **WBREDC** were deployed to verify accounts (1999-2003), determine scheme-wise receipt and expenditure for rural electrification works as well as to conduct physical verification and valuation of stocks.

**WBPDCL** stated (July 2004) that considering the adequacy of internal control the management assessed the scope of work of internal audit at a minimum cost. The contention is not tenable in view of Statutory Auditors' comment on strengthening of internal audit in coverage and intensity by extending the scope of work

***Planning – poor coverage of units***

**4.25.12** None of these power utilities except **WBSEB** assessed the auditable units and evolved annual audit planning. **WBSEB** assessed the auditable units at 982 up to 2000-01, reduced to 859 in 2001-02 due to closure of unit stores.

Annual audit programme was drawn up by **WBSEB** after considering mainly the number of non-audited units for the last three years. Even on this basis, only 13 (110) to 18 (156 units) *per cent* of the total units were targeted for undertaking internal audit during 1999-2004. **WBSEB** failed to achieve even those lower targets and the shortfall ranged between seven and 49 *per cent*. Further, 42 *per cent* (175) of 421 group electric supplies remained unaudited, while physical verification of meters/ installations was not conducted till March 2004 in deviation of IAM.

***Delay in issue of internal audit reports (IARs)***

**4.25.13** IAM of **WBSEB** requires that the draft internal audit reports (DIARs) should be submitted to IAD within seven days from the date of completion of audit, but does not specify the time limit within which IAD should issue IARs to concerned units.

Audit observed that 200 DIARs out of 524 were submitted (April 1999-March 2004) to IAD after delays ranging from one day to 30 days for 101 DIARs, 31 to 60 days for 55 DIARs and more than 60 days for 44 DIARs. Similarly, IAD issued 224 IARs to concerned auditee units after a delay of one to three months in 119 cases, four to six months in 80 cases, seven to nine months in 14 cases, 10 to 12 months in four cases and more than one year in seven cases.

In case of **DPL**, the exact delay in issue of IARs could not be assessed in the absence of information relating to period of audit and date of completion of audit. Internal auditors of both **WBPDCL** and **WBREDC** submitted the IARs quarterly.

***Delay in submission of replies to IARs***

**4.25.14** During 2000-03, IAD of **WBSEB** issued 313 IARs containing 2,478 paragraphs valuing Rs 1,330.45 crore, of which only 52 IARs containing 575 paragraphs (value : Rs 49.66 crore) were settled till March 2004. As a result, **WBSEB** realised revenue of Rs 9.03 crore only. As of March 2004, 261 IARs containing 1,903 paragraphs valuing Rs 1,281 crore were pending settlement due to delay in receipt of replies.

As per practice, IARs are to be replied to within one month. But, first replies had not been received in respect of 43 reports issued during 2000-03. Further, replies were received after delays of one to three months in 167 cases, four to seven months in 35 cases, eight to 10 months in 15 cases and more than 10 months in 29 cases, leading to delay in realisation of revenue/ refund of materials worth Rs 249.82 crore from consumers/ contractors.

**4.25.15 DPL**, **WBPDCL** and **WBREDC** did not maintain the periodical status of IARs issued, settled and outstanding. **DPL** had 24 IARs with 193 paragraphs, issued during 1999-2004, awaiting settlement till March 2004 due to non-receipt of first replies from the auditee wing. In **WBPDCL** and **WBREDC**, no system was evolved for furnishing replies to observations of internal auditors.

***Findings of internal audit***

**4.25.16** A gist of internal audit findings of four power utilities during the period from 1999-2004 is shown at **Annexure-32**. An analysis of findings revealed that internal audit did not concern itself with some key functional areas, viz. purchase of power/ materials, fund management, inventory control and construction of projects as detailed in **Annexure-33**.

***Ineffective follow-up by the Board***

**4.25.17** The success of internal audit is greatly dependent on the supportive attitude and confidence reposed in its activity by the Board. Boards of these four power utilities did not review IARs to assess shortcomings noticed in internal audit and action taken notes thereon. Thus, internal audit had no role in effecting good governance practices in these power utilities.

The matter was reported to the Government/ Board/ Companies (June 2004), replies of the Government/ Board/ WBREDC had not been received (September 2004).

## 4.26 Follow-up action on Audit Reports

## Outstanding departmental replies on paragraphs appeared in Audit Reports

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

Though Audit Reports for the years 1997-98, 1998-99, 1999-2000, 2000-01 and 2001-02 were presented to State Legislature in July 1999, July 2000, July 2001, March 2002 and July 2003 respectively, eight out of 19 departments which were commented upon did not submit their explanatory notes on 37 out of 110 paragraphs/ reviews as on March 2004, as indicated in **Annexure-34**. It would be seen from annexure that departments largely responsible for non-submission of explanatory notes were Public Enterprises, Power, Commerce and Industries and Transport. Government did not respond to even reviews highlighting important issues like system failure, mismanagement, non-adherence to extant provisions and poor implementation of power sector reform project.

***Outstanding action taken notes on Reports of COPU***

**4.26.2** Reports of COPU presented to the Legislature contain recommendations and observations on which administrative departments are required to submit Action Taken Notes (ATNs) on recommendations of the COPU immediately after circulation of Reports. However, even after lapse of eight to 60 months, six departments did not furnish ATNs on 48 recommendations relating to seven COPU Reports presented (April 1999-July 2003) to State Legislature (**Annexure-35**).

***Action taken on persistent irregularities***

**4.26.3** To assist and facilitate discussions of paragraphs of persistent nature by the COPU, an exercise has been carried out to verify the extent of corrective actions taken by the concerned auditee organisations and results thereof are indicated in **Annexures-36 & 37**.

***Government companies***

**4.26.4** Irregularities like loss due to defective planning amounting to Rs 97 lakh (Saraswaty Press Limited), disbursement of loan without security amounting to Rs 3.40 crore (West Bengal Industrial Development Corporation Limited), undue benefit to employees amounting to Rs 53 lakh (West Bengal Tea Development Corporation Limited) and injudicious investment of surplus fund causing loss of Rs 79 lakh (West Bengal Agro Industries Corporation Limited) were included in Reports of the Comptroller and Auditor General of India for the years 1997-2002 (Commercial)- Government of West Bengal. Action taken by Companies/ State Government on irregularities as scrutinised (June 2004) in audit revealed that corrective actions were either not taken or were inadequate as per details in **Annexure-36** and that similar irregularities still persisted.

***Statutory corporation***

**4.26.5** Different persistent irregularities with financial implication of Rs 922.16 crore pertaining to West Bengal State Electricity Board (Board) were included in Reports of the Comptroller and Auditor General of India for the years 1997-2003 (Commercial) – Government of West Bengal. Audit observed that due to Board’s inertia and sluggish attitude in taking corrective action, irregularities were persisting as detailed in **Annexure-37**.

The matter was reported to the Government/ Management (June 2004), their replies had not been received (September 2004).

## Response to Inspection reports, draft paras and reviews

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

Inspection Reports issued up to March 2004 pertaining to 42 PSUs disclosed that 284 paragraphs relating to 179 IRs involving monetary value of Rs 527.65 crore remained outstanding at the end of August 2004, of which 59 IRs containing 153 paragraphs had not been replied for more than two years. Even initial replies were not received in respect of 112 paragraphs of 12 PSUs. Department-wise break up of IRs and audit observations as on June 2004 is given in **Annexure-38**. In order to expedite settlement of outstanding paragraphs, Audit Committees were constituted in 16 out of 19 departments. These Committees settled 52 paragraphs in 26 meetings during 1997-2003. However, no meeting was held in 2003-04. This was indicative of lack of efforts of executive/ administrative departments to ensure accountability.

Similarly, draft paragraphs and reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the administrative department concerned demi-officially seeking confirmation of facts and figures and their comments thereon within a period of six weeks. It was, however, observed that 11 draft paragraphs and one draft review forwarded to the various departments during March to June 2004, as detailed in **Annexure-39** had not been replied to so far (September 2004).

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

**KOLKATA** **( M. CHATTERJEE )**
**The** **Principal Accountant General (Audit)**
**West Bengal**

***Countersigned***

**NEW DELHI** **(VIJAYENDRA N. KAUL)**
**The** **Comptroller and Auditor General of India**

# ANNEXURES