

OVERVIEW

1 OVERVIEW OF GOVERNMENT COMPANIES AND STATUTORY CORPORATIONS

As on 31 March 2004, the State had 84 Public Sector Undertakings (PSUs) comprising 74 Government companies and 10 Statutory corporations as against 83 PSUs as on 31 March 2003. Out of 74 Government companies, 64 were working Government companies, while ten were non-working Government companies. All 10 Statutory corporations were working corporations.

(Paragraph 1.1)

The total investment in working PSUs increased from Rs 26,088.64 crore as on 31 March 2003 to Rs 31,168.76 crore as on 31 March 2004. The total investment in non-working PSUs also increased from Rs 241.46 crore to Rs 282.98 crore during the same period.

(Paragraphs 1.2 & 1.16)

The budgetary support in the form of capital, loans and grants/ subsidies disbursed to the working PSUs increased from Rs 1,549.83 crore in 2002-03 to Rs 3,364.71 crore in 2003-04. The State Government also contributed Rs 12.88 crore in the form of grants/ equity/ loans to six non-working companies during 2003-04. The State Government guaranteed loans aggregating Rs 3,494.73 crore during 2003-04. The total amount of outstanding loans guaranteed by the State Government to all PSUs was Rs 13,648.12 crore as on 31 March 2004.

(Paragraphs 1.5 & 1.17)

Twenty nine working Government companies and two working Statutory corporations had finalised their accounts for the year 2003-04 (September 2004). The accounts of remaining 35 working Government companies and eight working Statutory corporations were in arrears for periods ranging from one to eight years as on 30 September 2004. The accounts of nine non-working Government companies were in arrears for periods ranging from one year to 20 years as on 30 September 2004.

(Paragraphs 1.6 & 1.19)

According to the latest finalised accounts, 17 working PSUs (14 Government companies and three Statutory corporations) earned aggregate profit of Rs 45.67 crore, of which three companies declared dividend of Rs 40.87 lakh. Against this, 56 working PSUs (49 Government companies and seven Statutory corporations) incurred aggregate loss of Rs 754.68 crore as per their latest finalised accounts. Of the loss incurring working Government companies, 40 companies had accumulated losses aggregating Rs 3,124.66 crore, which exceeded their aggregate paid-up capital of Rs 459.38 crore. Six loss incurring Statutory corporations had accumulated

loss of Rs 5,936.02 crore which exceeded their paid-up capital of Rs 1,462.92 crore.

(Paragraphs 1.7, 1.8, 1.9, 1.10 & 1.11)

Even after completion of more than five years of their existence, the individual turnover of 15 working and nine non-working Government companies and one working Statutory corporation had been less than rupees five crore in each of the preceding five years as per their latest finalised accounts. Similarly, 14 working Government companies and one Statutory corporation had been incurring losses for five consecutive years as per their latest finalised accounts, leading to negative net worth. As such, the Government may either improve the performance of these 40 PSUs or consider their closure.

(Paragraph 1.32)

2 REVIEWS RELATING TO GOVERNMENT COMPANIES

2.1 THE STATE FISHERIES DEVELOPMENT CORPORATION LIMITED AND WEST BENGAL FISHERIES CORPORATION LIMITED

The State Fisheries Development Corporation Limited (SFDC) and West Bengal Fisheries Corporation Limited (WBFC) were incorporated in March 1966 and March 1980 respectively to engage in pisciculture operation in the State. WBFC also took up construction of fishing harbours, minor ports and other projects on behalf of Government and other organisations. Both these Companies failed to achieve their objectives due to poor productivity of fish farms, underutilisation of water bodies, lax internal control over catching of fish, non-implementation of development programmes of fish farms, high incidence of employees' cost (SFDC), inept implementation of World Bank aided project, underutilisation of facilities at fishing harbours and poor production at fish farms (WBFC).

Some interesting findings are mentioned below :

As on 31 March 2004, accumulated loss of Rs 10.03 crore (SFDC) and Rs 2.62 crore (WBFC) had completely eroded the paid-up capital of Rs 2.70 crore (SFDC) and rupees two crore (WBFC) due to their poor operating performance.

(Paragraphs 2.1.1, 2.1.2, 2.1.13 & 2.1.14)

During 1999-2004, SFDC sustained loss of production of different types of fish amounting to Rs 371.35 crore as actual production fell short of standard production owing to operation of fish farms without assessing the suitability of soil and water, underutilisation of water bodies, absence of optimum stocking density and ratio, non-maintenance of feed requirement for prawns and high mortality of prawns.

(Paragraphs 2.1.22 – 2.1.26, 2.1.30 & 2.1.31)

Deployment of 373 to 399 staff in excess of staff to fishermen ratio fixed by the management in SFDC resulted in extra expenditure of Rs 12.06 crore during 1999-2004.

(Paragraph 2.1.33)

Due to inept implementation of World Bank Aided Projects (WBAP) and underutilisation of fishing harbours constructed by WBFC, expenditure of Rs 64.03 crore proved to be unfruitful, while investment of Rs 7.79 crore was in jeopardy. Besides, loans of Rs 16.61 crore granted under WBAP were not recovered from the beneficiaries.

(Paragraphs 2.1.35 – 2.1.40 & 2.1.43)

2.2 WEST BENGAL HANDLOOM AND POWERLOOM DEVELOPMENT CORPORATION LIMITED

West Bengal Handloom and Powerloom Development Corporation Limited (Company) was incorporated in September 1973 mainly with the objectives of developing handloom and powerloom industries. The Company failed to fulfil its objectives due to procurement without regard to demand, high selling prices, huge interest burden, poor sales performance, stockpiling of inventory, high incidence of employees' cost, operation of loss-incurring sales depots and non-recovery of dues.

Some aspects are highlighted below :

As on 31 March 2003, accumulated loss of Rs 65.23 crore had completely eroded the paid up capital of Rs 26.04 crore as the functioning of the Company was below the mark.

(Paragraphs 2.2.1, 2.2.9 & 2.2.10)

Due to unfavourable settlement of cash credit dues with bank and failure to abide by the repayment schedule, the Company had to bear additional interest burden of Rs 23.79 crore.

(Paragraphs 2.2.13 & 2.2.14)

Despite offering rebates/ discount of 22 to 28 *per cent* (Rs 7.12 crore), sales through depots dipped by 15 *per cent* in 2002-03 over 1999-2000 due to defective procurement, lack of market research and overpricing of products. This led to accumulation of stock from Rs 5.44 crore to Rs 10.50 crore (including soiled/ non-moving stock of Rs 2.87 crore) with inventory carrying cost of Rs 2.85 crore during 1999-2003, causing acute cash crunch and delayed payment of dues to weavers.

(Paragraphs 2.2.24, 2.2.27, 2.2.30 & 2.2.35)

In spite of incurring losses aggregating Rs 8.87 crore, unviable sales depots were not closed. Moreover, recruitment of 241 employees for unviable sales

depots without assessing manpower requirement inflated the fixed costs, which exceeded the value addition. Even then, the Company spent Rs 55.43 lakh towards appointment of 28 casual workers and overtime payment.

(Paragraphs 2.2.28 & 2.2.29)

The Company was negligent in implementing schemes for development of weavers and out of 14 such schemes, the Company partially implemented only three schemes.

(Paragraph 2.2.38)

3 REVIEW RELATING TO STATUTORY CORPORATION

GROWTH AND DEVELOPMENT OF TRANSMISSION SYSTEM IN WEST BENGAL STATE ELECTRICITY BOARD

The transmission system is required for evacuation of power from generating stations to bulk load centres. The growth of the transmission system of West Bengal State Electricity Board (Board) did not keep pace with the increased power availability due to delays in implementation of schemes, as mentioned below :

During 1999-2004, achievement of physical targets was 19 and 29 *per cent* for lines and sub-stations respectively, while financial expenditure was 58 *per cent* of outlay.

(Paragraphs 3.1, 3.7 & 3.11)

Between 1999 and 2004, the Board took up construction of 40 transmission lines and 52 sub-stations of which seven lines and 25 sub-stations remained incomplete. Moreover, construction of 25 lines and 14 sub-stations were not taken up. Due to defective planning, the Board failed to synchronise the construction of sub-stations and their related transmission lines leading to under/ non-utilisation of transmission lines costing Rs 78.49 crore.

(Paragraphs 3.8 & 3.15)

During 1999-2004, the Board incurred expenditure of Rs 527.48 crore, funded through loans of Rs 427.32 crore from the Central and State Governments, external agency, financial institution as well as own fund of Rs 77.68 crore and State Government grant of Rs 10.53 crore. Besides, the Board was yet to receive reimbursement of Rs 11.95 crore from the external agency.

(Paragraphs 3.10 & 3.11)

Under the Japan Bank for International Co-operation (JBIC) assisted project, construction of 18 out of 23 sub-stations and all 24 transmission lines stretched beyond their scheduled completion dates. In respect of Power Finance Corporation Limited (PFC) assisted schemes, the picture was equally bleak with the schemes remaining incomplete far beyond target dates. Consequently, the Board lost potential revenue of Rs 226.76 crore as well as incurred additional line losses of Rs 40.29 crore. In addition, there was loss of Rs 8.90 crore to the exchequer by way of electricity duty.

(Paragraphs 3.13.1, 3.14.3, 3.15 & 3.16)

Despite incidence of high transmission and distribution (T&D) losses, the Board failed to take up energy audit so far. Due to T&D losses in excess of norm, the Board resorted to avoidable purchase of 13,626 million units valuing Rs 2,294.37 crore.

(Paragraphs 3.9 & 3.17)

4 TRANSACTION AUDIT OBSERVATIONS

Transaction audit observations included in this Report highlight deficiencies in the management of PSUs, which resulted in serious financial implications. The irregularities pointed out are broadly of the following nature :

- ▲ Unproductive expenditure/ blocking of funds/ loss of interest amounting to Rs 121.11 crore in eight cases. *(Paragraph Nos. 4.5, 4.6, 4.9, 4.10, 4.14, 4.21 4.22 & 4.23)*
- ▲ Excessive inventories/ extra avoidable expenses amounting to Rs 173.58 crore in six cases. *(Paragraph Nos. 4.1, 4.2, 4.3, 4.7, 4.15 & 4.19)*
- ▲ Loss of revenue amounting to Rs 4.56 crore in a single case. *(Paragraph No. 4.18)*
- ▲ Irregular payment of Rs 69.09 lakh to staff in one instance on account of *ex-gratia*. *(Paragraph No. 4.16)*
- ▲ Undue favour to suppliers, contractors and borrowers resulting in loss of Rs 8.40 crore in four cases. *(Paragraph Nos. 4.4, 4.11, 4.12 & 4.13)*
- ▲ Miscellaneous seven other cases amounting to Rs 12.64 crore on account of arrears in accounts, loss of incentive, avoidable payment of income tax, interest on delayed payment of income tax, deficiencies in internal control among power sector agencies, absence of follow-up action on Audit Reports (Commercial) and lack of responsiveness to Audit. *(Paragraphs Nos. 4.8, 4.17 4.20, 4.24, 4.25, 4.26 & 4.27)*

Some important findings are as follows.

GOVERNMENT COMPANIES

West Bengal Power Development Corporation Limited suffered loss of Rs 184.72 crore due to excess consumption of fuel (Rs 96.67 crore), delay in replacement of turbine blades (Rs 58.39 crore), implementation of a project without financial tie-up (Rs 15.51 crore), undue benefit to a private coal supplier (Rs 6.27 crore), inept cash management leading to avoidable payment of interest on working capital demand loan (Rs 2.50 crore) as well as loss of interest arising from investment of short-term deposits at lower rates (Rs 3.03 crore), extra expenditure on excavation of settled ash (Rs 1.53 crore) and excess payment of income tax along with interest on delayed payment (Rs 0.82 crore).

(Paragraphs 4.1 - 4.8)

West Bengal Infrastructure Development Finance Corporation Limited utilised borrowed fund of Rs 159.42 crore to meet dues of defaulting public sector enterprises/ co-operatives societies to banks and financial institutions and sustained loss of Rs 36.19 crore towards interest.

(Paragraph 4.9)

Delays in closure of eight non-working companies led to payment of idle wages of Rs 66.85 crore, while West Bengal State Seed Corporation Limited made irregular payment of *ex-gratia* of Rs 69.09 lakh.

(Paragraphs 4.16 & 4.23)

STATUTORY CORPORATION

West Bengal State Electricity Board (Board) had forgone incentive of Rs 11.50 crore under one time settlement of dues of Central Public Sector Undertakings due to its failure to open letters of credit by 30 June 2002. The Board sustained loss of potential revenue of Rs 4.56 crore due to failure in the checking mechanism. In addition, the Board incurred additional expenditure of Rs 60 lakh on procurement of power transformers.

(Paragraphs 4.17 - 4.19)

INTERNAL CONTROL SYSTEM IN STATE-OWNED POWER UTILITIES

Review of the internal control mechanism in four state-owned power utilities viz. West Bengal State Electricity Board, The Durgapur Projects Limited, West Bengal Power Development Corporation Limited and West Bengal Rural Energy Development Corporation Limited revealed persistent shortcomings in the key functional areas of purchase and sale of power, material management as well as fund management. The managements failed to address these deficiencies though repeatedly pointed out by audit to reduce waste/ mismanagement as well as prevent system failures. In addition, internal audit had not been honed as an effective tool for internal control.

(Paragraph 4.25)