Chapter-III

3 Compliance Audit

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

Government Companies

THE WEST BENGAL POWER DEVELOPMENT CORPORATION LIMITED, THE DURGAPUR PROJECTS LIMITED AND WEST BENGAL STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED

3.1 Additional interest incurred due to non-billing of monthly variable/ fuel cost adjustment

Contrary to regulations of West Bengal State Electricity Regulatory Commission, three state power utilities had not billed monthly variable/ fuel cost adjustment aggregating to ₹ 992.69 crore from their purchasers and consumers resulting in additional interest burden of ₹ 113.04 crore.

West Bengal Electricity Regulatory Commission (Commission) introduced[1] (April 2011) recovery of variances in actual fuel cost, power purchase cost and cost of unscheduled interchange of power for each month with reference to the admitted cost in the tariff orders based on the normative parameters laid down by the Commission. The amount of Monthly Fuel Cost Adjustment (MFCA)/ Monthly Variable Cost Adjustment (MVCA) on monthly sales of energy was recoverable since April 2011 by the generating companies and licensees respectively through energy bills from their purchasers and consumers of electricity under the purview of the Commission. The Regulations also provided that whenever there was a change in MFCA/ MVCA, the concerned power utility should publish the information through two daily newspapers in its area of operations.

Accordingly, in May 2011, the three State Power Utilities *viz.* The West Bengal Power Development Corporation Limited (WBPDCL), The Durgapur Projects Limited (DPL) and West Bengal State Electricity Distribution Company Limited (WBSEDCL) published requisite notices intimating their intent to recover of MFCA/ MVCA from April 2011. WBPDCL and WBSEDCL also notified their purchasers and consumers that for April 2011, MFCA recoverable by WBPDCL[2] was ₹ 0.04 to ₹ 0.50 per Kilowatt hour (KWH[3]) while for WBSEDCL, MVCA was ₹ 0.38 per KWH. For the

[1] Through its Regulations (Terms and Conditions of Tariff) 2011.

[2] Kolaghat Thermal Power Station ₹ 0.06 per KWH, Bakreshwar Thermal Power Station ₹ 0.50 per KWH, Bandel Thermal Power Station ₹ 0.24 per KWH, Sagardighi Thermal Power Station ₹ 0.04 per KWH and Santaldih Thermal Power Station ₹ 0.42 per KWH.

[3] One unit of energy

same month, DPL had arrived at MVCA at ₹ 1.02 per KWH (excluding power purchase cost variance) but had not notified its recovery.

WBPDCL had recovered ₹ 48.75 crore from WBSEDCL towards MFCA for April 2011 but effected no further billing of MFCA from May to December 2011. Similarly, for April 2011, WBSEDCL billed MVCA of only ₹ 2.59 crore out of ₹ 56.38 crore. It also did not raise MVCA bill between May and December 2011. Both WBPDCL and WBSEDCL resumed billing of MFCA/ MVCA from January 2012.

DPL did not claim MVCA from April to November 2011 and started billing from December 2011 onwards. DPL ascribed (June 2012) the delay to prudence in calculating the MVCA on stabilisation of Unit 7 with reduction of power purchase.

The Government endorsed (August/ September 2012) the replies of WBSEDCL and WBPDCL stating that recovery of MVCA/ MFCA during the period from April/ May 2011 to December 2011 was kept in abeyance on the verbal request of the State Government. Subsequently, after continuous persuasion from the Management, the Government permitted (January 2012) resumption of MVCA/ MFCA realisation. In respect of DPL, the Government stated (June 2012) that MVCA bills were not raised because the concept was new to DPL and calculation required complex set of data. Further it added that due to outage of Unit 7 there was shortage of power and power procurement in substantial quantity were resorted to, therefore management preferred to wait till synchronisation of Unit 7.

The action of the managements of WBPDCL/ WBSEDCL is not justified. The tariff regulations and the Electricity Act, 2003 (Act) stipulate that if the State Government requires the grant of any subsidy to any consumer or class of consumers in the tariff determined by the Commission, the Government should pay the amount, in advance, to the licensee. Further the Act clearly provides that no direction of the State Government for grant of subsidy would be operative if the payment is not made in advance. As the Government had not paid the subsidy in advance, the managements' decision to keep recovery of MFCA/ MVCA in abeyance at the verbal request from the State Government, for nine months, was detrimental to the interest of the Companies.

The reply of DPL is not justified as the Commission had introduced the concept of MVCA to compensate the fluctuation in fuel prices month-wise instead of after the closing of the financial period. However, despite its poor financial position, DPL did not avail this opportunity to recover the additional expenditure incurred on account of fuel cost concurrently. Any amount towards fuel and power purchase costs not recovered could have been realised subsequently through Fuel & Power Purchase Cost Adjustment (FPPCA) after the closing of the financial year with the approval of Commission.

Audit observed (May 2012) that unbilled and unrecovered MFCA/ MVCA by the three State Power Utilities aggregated to ₹ 992.69 crore as given in the table below.

Table 3.1 Details of MFCA/ MVCA not billed by State Power Utilities

Name of the State Power Utility	Period	Rate of MFCA/ MVCA (₹ per KWH)	No. of units sold (in million KWH)	Amount of MFCA/ MVCA (₹ in crore)	Rate of interest (in *per cent*) *(Note 3)*	Amount of interest loss (₹ in crore)
WBPDCL	May - December 2011	0.04 to 0.50	13,085.81	330.21	10.75	45.73
DPL	April - November 2011	1.02 *(Note 1)*	1,078.22	109.98	13.35	20.40
WBSEDCL	April - December 2011	0.38	14,607.65	552.50 *(Note 2)*	10.25	46.91
Total				**992.69**		**113.04**

Notes: 1) Considering only fuel cost variance but excluding power purchase cost variance.
2) WBPDCL had not raised invoices for MFCA of ₹330.21 crore, hence interest loss for WBSEDCL has been calculated on ₹222.29 crore.
3) Based on lowest prevailing rate of interest on cash credit during 2011-12.

This amount can subsequently be recovered through the tariffs for 2013-14 after annual accounts for 2011-12 are finalised and the Annual Performance Review (APR)/ FPPCA are approved by the Commission. Due to non-recovery of MFCA/ MVCA, these Utilities had taken recourse to cash credit from banks at rates of interest ranging from 10.25 to 13.35 *per cent per annum* to meet fuel and power purchase costs. The additional interest burden from April/ May 2011 to December 2012 worked out to ₹ 113.04 crore. Moreover, the interest burden would persist till March 2013.

Thus, the three State Power Utilities suffered additional interest of ₹ 113.04 crore due to non recovery of MFCA/ MVCA from the customers.

THE WEST BENGAL POWER DEVELOPMENT CORPORATION LIMITED

3.2 Avoidable expenditure

The generator transformer of the third unit at The West Bengal Power Development Corporation Limited sustained damage when asynchronously connected with the grid due to non-installation of automatic synchronisation facilities. As a result, this unit was under outage for 11,513 hours from June 2009 to October 2010 leading to non-realisation of capacity charges of ₹ 29.19 crore and avoidable expenditure of ₹ 2.50 crore on repair of the generator transformer.

Electricity generated at relatively low voltages in power plants is stepped up to high voltages of 132 KV and above before transmission through the grid to the load centres. The electricity is stepped up by the Generator Transformer (GT), functioning as the interface between the generator and the grid. However, for successful synchronisation to occur at commissioning, re-commissioning or resumption of generation, it is imperative that the generator and grid voltages should be of equal magnitude and have the same polarity[4] with phase angle

[4] Direction of flow of current,

between them being zero. Also their frequencies and phase sequences must coincide. If any of these five parameters is not fulfilled, it would cause asynchronous fault. This can lead to damage to generator windings, turbine and GT. Earlier, this synchronisation was performed manually under the vigil of the control engineer. Nowadays the process is automated through synchronisation relays to obviate human error/ response time lag. The Central Electricity Authority (CEA) had notified (February 2007) the technical standards for grid connectivity where it was mandatory for all new generating units to provide Automatic Synchronisation Facilities (ASF) while making it incumbent on the existing units to have standard protection from faults within the units, generating stations and transmission lines.

Bandel Thermal Power Station (BTPS) of West Bengal Power Development Corporation Limited (Company) operates five[5] units commissioned between September 1965 and October 1982. While Units 1 to 4 were not equipped with ASF, Unit 5 which was commissioned in October 1982 was fitted with ASF since inception. At three[6] other thermal power stations of the Company, ASF had also been fitted to all units since their commissioning between June 1984 and March 2009. The reason for not automating the synchronisation process of Units 1 to 4 was not on record.

Unit 3 of BTPS was forced into outage on 11 June 2009 due to electrical problem. While re-synchronising the unit on 17 June 2009, the control engineer on duty gave clearance to his counterpart in electrical operation for closing the breaker in due time. Though the frequency of the GT was very near to system frequency and generated voltage at near matching level, asynchronous fault occurred. This led to damage to the GT, with outage of the unit for 11,513 hours from 17 June 2009 to 10 October 2010.

An Enquiry Committee, set up (June 2009) by the Company concluded (July 2009) that since Units 1 to 4 lacked ASF, the possibility of asynchronous fault could have normally been averted through alertness of the engineer concerned. The Committee also concluded that the control engineer should have been more cautious during synchronisation. Besides, it recommended incorporation of ASF in closing circuits of all four generator breakers.

Acting on the Committee's recommendations, the Company purchased (November 2009) ASF known as Check Synchronisation Scheme (CSS) for these four units at a cost of ₹ 1.08 lakh. The CSS was installed (January 2010) at a cost of ₹ 0.25 lakh. The Company also placed (February 2010) order on ABB Limited for repair of the damaged GT for ₹ 2.50 crore to be completed within 136 days. ABB completed the repair after 288 days in October 2010.

Under the Availability Based Tariff, BTPS is entitled to capacity charges if it ensures that its plant is available for generation of electricity. For the time that a plant is unable to generate electricity due to outage, it does not earn capacity charge in proportion to the period of outage. The annual capacity charges for the entire BTPS was ₹ 86.18 crore and ₹ 151.95 crore for 2009-10 and 2010-11 respectively. Due to non-installation of CSS, Unit 3 was under outage

[5] Units 1 to 4 of de-rated capacity of 60 MW each (original : 80 MW) and Unit 5 of 210 MW.
[6] Kolaghat, Bakreswar and Sagardighi.

for 11,513 hours. As a result, the Company could not claim capacity charges of ₹ 29.19[7] crore during 2009-10 and 2010-11 as well as incurred expenditure of ₹ 2.50 crore on repair of GT.

The Government/ Management in their reply stated (August 2012) that this unit was commissioned in 1966 and ASF was not available at that time. Hence the same could not be installed. Further, BTPS was an old power station and was not entitled to capacity charges due to non-achieving the prescribed Plant Availability Factor (PAF).

Although, ASF was not available at the time of commissioning of the units, the Company has subsequently installed ASF in units commissioned afterward. Therefore, it could have installed ASF later on in line with the CEA norms. Besides, the Company did not move ahead with the proposal to replace the existing units and belatedly installed ASF/ CSS.

The actual PAF of BTPS for the year 2008-09 was 63.21 *per cent* as against the target of 62 *per cent* prescribed by WBERC. Similarly, for the year 2009-10, actual PAF before outage was 69.72 *per cent* (April 2009) against the target PAF of 66 *per cent* which indicates that the plant could achieve the targeted PAF prescribed by WBERC and realise the capacity charges.

Thus, due to delay in installing the ASF/ CSS, the Company sustained a loss of ₹ 31.69 crore.

The Durgapur Projects Limited

3.3 Extra expenditure on power purchased through short-term arrangements

The Durgapur Projects Limited incurred extra expenditure of ₹ 22.57 crore on short term purchase of 254 MU power at higher rates from West Bengal State Electricity Distribution Company Limited instead of buying the same from Indian Energy Exchange at lower rates which ultimately led to consumers being burdened with higher tariff.

The tariff regulation[8] of West Bengal Electricity Regulatory Commission provides that in case of a shortfall or failure in supply of electricity from the approved source, a distribution licensee may procure power under short-term arrangements or agreements under intimation to the Commission where tariff of power procured is determined in accordance with a transparent bidding process as well as prioritising procurement from those sources of power whose costs are lower. The distribution licensee should communicate details of these arrangements or agreements within a month to the Commission.

Indian Energy Exchange (IEX) provides a transparent, automated, online electricity trading platform for purchase of such short term energy by enabling

[7] [{₹ 8,618.18 lakh/ (450 MW × 66 per cent of 8,760 hours)}× 60 MW × 6,891.42 hours]+[{ ₹15,194.53 lakh/ (450 MW × 69 per cent of 8760 hours]} × 60 MW × 4,621.52 hours]

[8] Regulation 31 of February 2007.

efficient price discovery and price risk management for participants of the electricity market including distribution licensee. Trading in 'day ahead market' of IEX required that the licensee would have to submit its bid (required quantum of energy and indicative price) to IEX between 10 AM and 12 Noon of the day prior to the date it would require the energy. The bid thus submitted would be the ceiling price at which the licensee would be allocated energy. Thereafter, IEX would be matching bids from suppliers and buyers to determine the equilibrium demand-supply price. If the equilibrium price (market clearing rate) is lower or equal to the licensee's bid, then energy would be allocated to that licensee. Thus, the licensees would be benefited from lower energy prices if they purchased short term power from IEX. Otherwise, as the trade would be finalised by 3 PM of previous day, the licensees have the option to schedule its' purchase from other sources for the residual quantity.

The Durgapur Projects Limited (Company) generates and supplies power to its consumers and thereafter sells the surplus to West Bengal State Electricity Distribution Company Limited (WBSEDCL). Due to de-commissioning (April 2010/ April 2011) of first and second units and forced outage of seventh unit between May 2010 and August 2011, the Company faced increasing difficulty to meet the demand of its consumers from its generation. Though per unit cost of power purchased from WBSEDCL was ₹ 3.71 to ₹ 4.65 during 2010-11 against their selling tariff of ₹ 3.26 per unit, the Company did not explore the possibility of sourcing power from IEX at cheaper rates. Instead the Company purchased (May 2010 to March 2011) 220.16 MU power from WBSEDCL at an average price of ₹ 4.32 per unit.

In March 2011, the Company received an offer from RPG Power Trading Company Limited (RPG), a licensed member of IEX, to trade power at IEX as its client on payment of four paisa per unit as professional charges with seven days credit, and IEX transaction fee of one paisa per unit. Besides, the Company had to bear transmission charges/ loss and operating charges of load despatch charges. In view of non-availability of required power from WBSEDCL in the ensuing summer months, the Company entered (April 2011) into an agreement with RPG for purchase of power from IEX for four months which was further extended (August 2011) for another four months.

During April 2011 to October 2011, we observed that the Company purchased 27.75 MU from IEX and 34.03 MU from WBSEDCL. The average price of purchase from IEX and WBSEDCL was ₹ 3.15 per unit and ₹ 4.44 per unit respectively during that period. As the Company's alternative source of procurement was from WBSEDCL, the Company should have determined its average price of power for submitting bid to IEX at a price not exceeding the average price of energy from WBSEDCL less associated variable costs[9]. We simulated[10] the Company's energy purchase against possibility of bids between May 2010 and October 2011 and discovered that if the Company had acted prudently by opting to purchase energy from IEX during this period and

[9] IEX transaction fees (one paisa), RPG's charges (four paisa), and transmission loss/ charges, charges for load despatch centres (13 paisa) aggregating 18 paisa per unit.

[10] Simulation is a decision making technique that explores 'what if' scenarios.

quoted appropriate bids, it would have saved ₹ 21 crore[11] on the purchase of 220.16 MU from WBSEDCL in 2010-11 and ₹ 2.78 crore[12] on 34.03 MU purchased during April to September 2011.

The Management stated (May 2012) that to meet the entire demand, the Company could not depend on IEX source totally because purchasing power from IEX required assessment of actual requirement which was difficult for them due to fluctuating demand-supply situation and non-availability of power from IEX at Company's bid rate when market rates go up. The Government added (May 2012) that the Company had considered the average selling price of ₹ 3.26 per unit to its consumers and accordingly quoted for purchasing power through IEX. Besides, the credit period for purchase through IEX was lower in comparison with the time taken by the Company to realise dues against sale of power to its consumers, requiring strong working capital support. The Government also agreed that there was scope for improvement and the audit observations would be helpful in future.

The contention overlooked the fact that the Company was complying with the State Grid Code[13] where schedule of drawal for next day was submitted to State Load Despatch Centre showing projected demand in its area of supply for each 15 minutes' time block. Further, the Company had favourable trade-off between market clearing rates when IEX price did not exceed the energy price of WBSEDCL (less associated variable costs) ranging from ₹ 1.66 to ₹ 4.42 (2010-11) and ₹ 2.43 to ₹ 4.23 (2011-12) per unit compared to WBSEDCL rates of from ₹ 3.71 to ₹ 4.65 (2010-11) and ₹ 4.15 to ₹ 4.65 (2011-12) and option to purchase from WBSEDCL without advance intimation.

Moreover, the Company should have considered the purchase price of WBSEDCL less associated costs instead of Company's selling price since the purchase price from WBSEDCL was much more than the IEX average selling price. Besides, the additional interest on working capital at 10.5 *per cent* for an average of 51 days would have worked out to ₹ 1.21 crore.

Thus, by failing to explore the possibility of purchasing energy from 'day ahead' market of IEX until April 2011 and quoting lower price for power thereafter, the Company incurred an extra expenditure of ₹ 22.57 crore after adjusting for additional interest on working capital.

We recommend that the Government may issue directions to all state-owned distribution utilities to lay down a policy for procurement of power through short-term arrangements and agreements.

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[11] Purchase price from WBSEDCL : ₹ 95.76 crore less lower purchase price from IEX : ₹ 74.76 crore.

[12] Purchase price from WBSEDCL : ₹ 10.21 crore less lower purchase price from IEX : ₹ 7.43 crore.

[13] West Bengal Electricity Regulatory Commission (State Electricity Grid Code) Regulations, 2007.

3.4 Loss of revenue due to belated revision of rates for supply of water

The Durgapur Projects Limited belatedly revised rates for supply of processed water despite increase in input cost of raw water, leading to revenue loss of ₹ 3.89 crore.

The Durgapur Projects Limited (Company) processes raw water for industrial and drinking purpose. It utilises about 70 *per cent* of the water processed for captive consumption including water required for generation of electricity at the thermal power station. The balance 30 *per cent* is sold to municipal / development authorities as well as industrial, commercial and domestic consumers at rates fixed by the Company. To this end, the Company signed (May 1964) an agreement with Damodar Valley Corporation (DVC) for drawing water through DVC's water supply canal. The agreement[14] read with Damodar Valley Corporation Act[15], 1948 empowered DVC to recover water charges at notified rates[16] from the Company. Since November 2003, DVC was realising water charges at ₹ 2.57 per 1000 gallons[17].

From October 2010, DVC enhanced (September 2010) this rate to ₹ 5.27 per 1000 gallons. Consequently, the Company's average cost of processed water rose from ₹ 2.58 to ₹ 4.30 per Kilolitre (Kl). In October 2010, with a view to recover the rise in cost, the General Manager (Finance & Accounts) proposed to increase the rates for both captive consumption and external supply by ₹ 0.75 to ₹ five per Kl, which was subsequently overlooked. Instead, the Company lodged (October 2010) a protest with DVC against increase in rate. Since DVC had statutory sanction for rate, it did not roll back the notified rates. The Company had continued to pay water charges to DVC at the old rate till November 2011 and decided in December 2011 to pay at the enhanced rate along with arrears from October 2010.

Meanwhile, the Committee on Public Undertaking had observed[18] (December 2010) that the Company had not taken effective action to recover dues against water supplied. Yet, the Company had deferred (March 2011) revising the water rates on the reason of impending general elections. Ultimately, in September 2011, the Company's Board of Directors revised the water rates retrospectively since April 2011 for captive consumption and prospectively from October 2011 for industrial consumers. However, the Board had not taken any decision to revise the rate for drinking water. In February 2012, the Board decided to enhance the rates of drinking water supplied to municipal/ development authorities and domestic consumers from April 2012 onwards.

During October 2010 to March 2011, the Company's power station utilised 98.90 lakh Kl water with under recovery[19] of ₹ 1.48 crore. In addition, the

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14 Clause 2 of the agreement.

15 Section 15 of the Act.

16 Including special surcharge towards maintenance of Harbour Pond and Water Supply Canal.

17 1,000 gallons = 3.785 kilolitres.

18 In its 120th Report on Paragraph 4.6 of the Audit Report (Commercial) 2008-09 relating to failure of The Durgapur Projects Limited to realise its dues from the consumers against the water supplied to them.

19 Under recovery of ₹ 1.50 per Kl/ ₹ 0.75 per Kl.

Company had not realised[20] ₹ 1.40 crore on 27.92 lakh Kl water supplied (October 2010 to September 2011) to the industrial consumers and ₹ 1.01 crore on 134.64 lakh Kl supplied (October 2010 to March 2012) to the municipal/ development authorities and domestic consumers.

Management in its reply stated (July 2012) that the Company tried to resist the abnormal increase in prices of water instead of accepting the unilateral decision of DVC towards raising of rates of water. However, the same was not materialised and the additional amount had to be borne by the Company. The Government endorsed (August 2012) the same.

The reply is not tenable since the Company had the experience that in earlier occasion also the request of the Company for roll back of rates was not accepted by DVC. Despite the Company protested again in the instant case also and delayed the decision to increase the sale price of water. DVC did not roll back its rates and the Company had to bear the loss.

Thus, the Company incurred revenue loss of ₹ 3.89 crore due to belated revision of rates for supply of water.

WEST BENGAL STATE ELECTRICITY DISTRIBUTION COMPANY LIMITED

3.5 Appointment of employees in contravention of Government directives

West Bengal Rural Energy Development Corporation Limited appointed staff in contravention of Government directives.

The Government of West Bengal (Government) incorporated (August 1998) West Bengal Rural Energy Development Corporation Limited (Company) to undertake rural electrification (RE) works in the State, with funds provided by the Government. The Power and Non Conventional Energy Sources Department (PNCESD), Government of West Bengal had approved (April 1999) manpower strength of eight[21] officials for the Company. The Company was also to frame recruitment rules for each category of posts and get it vetted by the Government. The Company however, never framed recruitment rules. The Company appointed (November 1999 to August 2003) 16 contractual employees as stenographers, assistants, peons *etc*. at its headquarters in Kolkata.

Meanwhile, the PNCESD decided (February 2000) that until the Company commenced operations in each district, actual execution of the works would be through Zilla Parishads (ZPs). For execution of RE works, the Panchayats and Rural Development Department (PRDD), Government of West Bengal authorised (July 2000) ZPs to engage supervisory officers, store assistants and office assistants on contract at consolidated pay. ZPs were to discontinue these contracts when the Company appointed appropriate officers at the

[20] Short recovery of rupees five per Kl.

[21] Excluding a Managing Director, an Executive Director and an Officer on Special Duty on deputation from the Civil Services as well as a Company Secretary.

districts. The Company had not assessed aggregate manpower required for execution of RE works in the districts. During November 2000 to September 2005, ZPs engaged 110 employees on contract. The ZPs had to meet the pay of these employees out of available contingency/ overhead component of funds provided by the Company.

The Company's Board of Directors decided (December 2005) to seek Government approval for their permanent absorption. In January 2006, the Managing Director (MD) sought Government's approval for permanent absorption of the 16 employees engaged by the Company and also the 110 employees engaged by ZPs. However, PNCESD rejected (November 2006) the Company's proposal to create posts and regularise these 126 contractual employees.

The Company's Board of Directors then proposed (June 2007) that all contractual employees appointed by the ZPs for execution of RE works be brought under the Company's direct control for execution of new RE works. Thereafter, the PNCESD requested (September 2008) PRDD to do the needful. The ZPs were directed (September 2008) to release these contractual employees for re-engagement on contractual basis by the Company.

The MD of the Company, with the approval of Chairman, appointed (July 2009) 124 employees[22] on permanent basis. The Board of Directors approved (August 2009) for creation of 209 permanent vacancies without obtaining approval of the Government and accorded *post facto* approval for the decision of the MD for appointment of 124 employees from 1 July 2009. Subsequently, another two employees were also appointed in January 2010.

The Company's Articles of Association (AoA[23]) specified that if any matter brought before the Board was in the opinion of the Company's Chairman or any Director fit to be reserved for the decision of the Governor through the Government, the Company should not take action on that proposal until approval had been obtained.

The Company paid (July 2009 to October 2011) ₹ 6.73 crore as salary to these 126 employees. Subsequently, on amalgamation of the Company with West Bengal State Electricity Distribution Company Limited (WBSEDCL), those 126 employees were absorbed by WBSEDCL in November 2011.

The Management replied (August 2012) that the Government had expressed (November 2006) its inability to absorb the employees within the ZPs and not by the Company. Further, the Company was authorised by Article 91(n) of AoA to appoint and remove or dismiss or discharge or suspend such employees. The Government endorsed (August 2012) the reply of the Management.

However, records show that the reference to the Government was made by the Chairman of the Company in January 2006 for permanent absorption of these

[22] 61 Sub-Assistant Engineers, 36 Assistants, 26 Office Support hands and one sweeper.
[23] Article 72

employees by the Company. The proposal was scrutinised and rejected by the PNCESD of the Government and not by the PRDD.

Thus, the Company's decision to create the 209 posts and subsequent grant of permanent employment to these 126 employees without Government's approval particularly in the background of its rejection and not putting in place recruitment rules was in contravention of Government directives.

WEST BENGAL ELECTRONICS INDUSTRY DEVELOPMENT CORPORATION LIMITED

3.6 Loss of income due to non- enhancement of rental rate

The Company suffered loss of additional rental income of ₹ 4.79 crore due to its failure to revise rate at par with market rent.

In order to promote and develop electronics and information technology industries, West Bengal Electronics Industry Development Corporation Limited (Company) constructed (1994-95) plug and play infrastructure[24] namely 'Standard Design Factory' (SDF), 'Software Technology Park'(STP) *etc*. at Salt Lake Electronics Complex for long term leasing and letting out of industrial flats/ modules in those buildings, to different software export/ information technology enabled service/ electronics industrial units. Out of 192 modules in SDF, 70 were rented out (58 STP[25] and 12 non STP modules), 109 modules were leased out to different entrepreneurs for a period of 90 years, 10 were vacant and balance three were for its own use.

The rental agreement stipulated that the tenancy was initially for a period of three years which could be extended for another three years at an increased rent as per norms of the Company for which rent would be paid within seventh day of every month along with other charges. Since 1998 the Company had revised rent twice, with a hike of 20 to 25 *per cent*[26] and 11.11 to 13.33 *per* cent[27] during July 2003 and September 2006 respectively without referring to the prevailing market rates.

While reviewing the efficiency in determination of rental rates, audit observed that:

- The rates fixed in September 2006 were 33 to 43 *per cent* below the market rate[28] (₹ 30 per sq ft). Though at the time of last revision (September 2006) it was decided to review the enhancement after every three years as certain upgradations were made, the Company, however, did not revise the same even after a lapse of five years thereafter. The market rate of the rental property in Salt Lake varied between ₹ 40 and ₹ 49 per sq ft during 2008-09 to 2010-11.

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24 A fully constructed ready to move in premises, where the occupant has to only bring his equipments and start working

25 Software Technology Park.

26 From ₹ 12 to ₹ 15 per sq ft (STP modules) and ₹ 15 to ₹ 18 per sq ft (non STP modules).

27 From ₹ 15 to ₹ 17 per sq ft (STP modules) and ₹ 18 to ₹ 20 per sq ft (non STP modules).

28 Source: CBRE - India Office Market View

- In November 2010, a proposal for increase by 25 *per cent* over the existing rate for both the STP and non STP modules was placed before the Board who decided to form a Committee to review the proposal in the context of present commercial/ financing scenario in the IT sector. The Committee opined that the rental properties of the Company did not keep pace with the local market condition as the rental rate had not been revised for a long time and it recommended the base rate at ₹ 40 per sq ft. The Board, however, proposed (November 2011) to enhance the rentals from ₹ 17 to ₹ 21 per sq ft (STP modules) and ₹ 20 to ₹ 26 per sq ft (non STP modules) only and referred the matter to the Government. On receipt of necessary approval, the Company enhanced (January 2012) the rental rate accordingly.

Delay by the management to increase monthly rental and fixation of rates below prevailing market rates had resulted in loss of opportunity to earn additional rental income of ₹ 4.79 crore[29] during the period from September 2009 to March 2012.

In reply, the management stated (June 2012) that the market rate during 2009-11 varied between ₹ 40 and ₹ 49 per sq ft and the Company had revised the rent on the lower side with Government concurrence and also due to recession prevailing during that period. The management also stated that in order to meet social responsibility and financial capacity of the tenants to pay the hike they fixed the rent at a lower side. The reply of the management does not address the fact that the actual prevailing market rate during 2009-11 had increased sharply from ₹ 43 to ₹ 63 per sq ft and various up-gradations were made. Moreover, the Government had only approved the rates that were proposed by the Company. It was the Company's inability not to make proper assessment of the market as well as the tenants' financial credibility.

Thus, failure of the management to benchmark rental rate with prevailing market rate and delayed action for its revision led to a loss of additional income of ₹ 4.79 crore.

3.7 Loss due to non-compliance with protocol and non-billing of bandwidth used by clients

The Company incurred extra expenditure of ₹ 33.16 lakh due to failure to optimally arrange for bandwidth as well as lost potential revenue of ₹ 1.79 crore due to deficiencies in the control mechanism in billing of bandwidth charges.

West Bengal Electronics Industry Development Corporation Limited (Company) has been providing internet services since September 2003 to

[29] For 58 STP units: Differential rent of ₹ 23 (₹ 40 - ₹ 17) multiplied by 58,000 sq ft for 28 months plus for 12 non STP units: Differential rent of ₹ 20 (₹ 40 - ₹ 20) multiplied by 12,000 sq ft for 28 months (upto December 2011). And for 58 STP units: Differential rent of ₹ 19 (₹ 40 - ₹ 21) multiplied by 58,000 sq ft for 3 months plus for 12 non STP units: Differential rent of ₹ 14 (₹ 40 - ₹ 26) multiplied by 12,000 sq ft for 3 months (from January 2012 to March 2012)

corporate and individual clients in the State. The Company sourced internet bandwidth from three[30] basic service providers which was then sub-allocated to local user clients. As all the customers are not concurrent users, safety provision of additional bandwidth is required only over the maximum utilisation during Time Consistent Busy Hours[31] (TCBH) to arrest lag.

For selling bandwidth, the Company entered into Memoranda/ agreements with all clients indicating bandwidth requirement and charges payable. Each of these clients was connected through separate ports of a switch which allocated bandwidth as per contractual agreement. The switch was also connected to a server where, Multi Router Traffic Grapher[32] (MRTG) provided visual representations of traffic logs of bandwidth usage by each client, which was stored online in a 'word' file. While corporate clients were provided with internet service directly, individual clients were catered through networks of cable operators acting as local access providers[33] (LAPs). The Company purchased bandwidth based on speed and fixed tariff for its clients on the same principle.

In this connection audit noticed that:-

- As per the TRAI guidelines, if bandwidth utilisation exceeds 90 *per cent* during TCBH the internet service provider should make provision of additional bandwidth. This requirement of bandwidth was not fixed by the Company, although it was engaged in the business for more than eight years. Between April and September 2009, the Company had procured discrete bandwidth of 52.5 to 61.5 Mbps from Bharti Airtel. From October 2009, the Company procured block bandwidth of 155 Mbps without assessing future requirement. Scrutiny of records further revealed that during 2009-11, the Company actually utilised maximum bandwidth of 71.7 Mbps and 10.3 Mbps *per* month from Bharti Airtel (Bharti) and Tata Communications (Tata) respectively. Thus actual requirement of the Company was 89.6 Mbps and 12.9 Mbps, considering a provision of minimum speed of 80 *per cent* as prescribed under the TRAI guidelines[34] whereas the Company has contracted for 155/ 100[35] Mbps and 10[36] Mbps with Bharti and Tata respectively.

  Besides, the Company had not created its own IP address pool. Instead, it was using the IP addresses of Bharti and Tata. Consequently, despite availability of surplus bandwidth from Bharti, the Company could not forgo the bandwidth procured (10 Mbps) from Tata due to non-maintenance of its own IP address pool. As a result, entire expenditure of ₹ 33.16 lakh incurred (2009-11) towards payment of cost of bandwidth to Tata could have been easily avoided had the flexibility

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30 Bharati Airtel , Tata Communication and Reliance.
31 Peak Hours
32 A software.
33 Discontinued since January 2011.
34 As per TRAI notification 11 of 2006, benchmark for connection speed from ISP node to user is>80 per cent.
35 155 Mbps from October 2009 to October 2010 and since reduced to 100 Mbps (November 2010).
36 10 Mbps from 2008-09.

of providing bandwidth to clients from any source been available to the Company.

The management stated (June 2012) that in September 2009 when the Company was having lesser bandwidth speed (i.e. 61.5 Mbps), it cost ₹ 9.66 lakh, whereas during October 2009, with increase in bandwidth to 155 Mbps, the cost had decreased to ₹ 8.04 lakh. Hence, even with increase in speed, the cost was lower. The reply was not tenable as the Company entered into agreement for payment of bandwidth at rate of *per* Mbps speed during October 2009. Had rational bandwidth been procured by the Company further savings could have been ensured.

- Test check of MRTG logs of 26 clients in 2009-10 and 38 clients in 2010-11 revealed that the Company had not limited bandwidth usage of 21 and 25 clients respectively to contracted bandwidth. The Company had merely raised bills on clients on the basis of contracted bandwidth as certified by network administrator, and not as per actual bandwidth utilised by them, as captured by the MRTG logs installed for that purpose. Besides, the agreements with the clients contained us provision for billing of bandwidth availed in excess of the contracted bandwidth. Thus, revenue loss on account of bandwidth charges not billed amounted to ₹ 1.79 crore[37]. Audit analysis revealed that this loss was mainly attributable to absence of exception reports required to be generated by the system, lack of limit validation and scope of enhancing bandwidth without ratification of the competent authority, altogether indicating lack of control mechanism.

The management, however, attributed (September 2010) brief surges in traffic caused by abnormal occurrences like virus attack, different classes of spasm, brute force *etc.* at the clients' end as the major reason for over-utilisation of bandwidth. This was a normal phenomenon in Internet world and thus the Company has restricted billing to the contracted bandwidth speed. Further 50 *per cent* of committed bandwidth was being set as burstable for maintaining Quality of Service. The reply of the Management was not justified as the Company should have billed on actual bandwidth usage. Besides, traffic analysis recorded by MRTG in three months[38] showed that availing higher bandwidth speed by the clients was not occasional as the logs of 22 clients revealed that they had enjoyed bandwidth speed more than their contractual speed beyond 72 minutes each day for three to 27 days in each month. Moreover, burst could only happen if average rate of queue requirement for additional bandwidth for the last burst time seconds is smaller than burst threshold. Hence a block of data would be downloaded in lesser time than without burst.

Thus, due to failure in assessing requirement and optimising sourced bandwidth, the Company incurred an extra expenditure of ₹ 33.16 lakh on its excess procurement. Further, deficiencies in the control mechanism led to non-billing of bandwidth charges of ₹ 1.79 crore during 2009-11.

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[37] Computed by multiplying excess bandwidth used with contracted rates of respective client in each month.

[38] September 2010, January 2011 and March 2011.

3.8 Unfruitful expenditure due to inadequate monitoring

West Bengal Electronics Industry Development Corporation Limited incurred an unfruitful expenditure of ₹ 1.81 crore by not ensuring the objective of spreading e-Governance to underprivileged rural citizens through expanding WBSWAN backbone upto *Gram Panchayats*.

State Wide Area Network (SWAN) facilitates exchange of data and other types of information between two or more locations at significant geographical distance. Depending upon feasibility, the medium of connectivity could be copper wire, optical fibre cable or wireless.

The Department of Information Technology, Government of India, sanctioned (March 2005) ₹ 4.96 crore as capital grant-in-aid for spreading e-Governance to underprivileged rural citizens by expanding WBSWAN up to *Gram Panchayats* (GPs) in Bardhaman district based on a proposal[39] submitted (2004) by the Government of West Bengal (GoWB). The operational cost was to be borne by the GoWB. The project would provide voice, video and data connectivity through two Mbps[40] leased line of Bharat Sanchar Nigam Limited from District Headquarters to 31 Block Headquarters (BHQ) and dial-up connectivity using PSTN[41] line for facilitating data transfer from 31 BHQs to 277 GPs.

West Bengal Electronics Industry Development Corporation Limited[42] (Company) was the implementing and consulting agency for the project. The Company observed (March 2006) that speed and reliability over legacy PSTN line was low for applications like Video Conferencing (VC) and proposed to discard dial-up connectivity between block and the GP. Accordingly, GoWB agreed to Company's proposal (March 2006) to establish dedicated robust wireless connectivity link of two Mbps between BHQ and GP using WBSWAN. The project was to be completed by March 2007.

The Company received (June 2006) offers from five[43] agencies for implementation of connectivity link for all BHQs and GPs and placed (August 2006) order on Saksham Technology Solutions (STS[44]) for connectivity link valuing ₹ 40.62 lakh for only 14 BHQs and 128 GPs initially. In addition, for meeting uptime commitment of connectivity links at these BHQs and GPs, STS was appointed (July 2007) for maintenance operation at ₹ 0.30 lakh per month during warranty period of two years and ₹ 0.40 lakh per month after expiry of the warranty period. After completion of work, STS did not agree (August 2007) to continue working at the same rate for the remaining 17 BHQs and 149 GPs. Therefore, the Company awarded (August 2007) the remaining work to Adino Telecom Ltd. (ATL) at ₹ 48 lakh. No maintenance contract was entered into for these 17 BHQs and 149 GPs. Besides, the Company incurred ₹ 75.00 lakh on towers/ masts and antennae and ₹ two lakh towards site survey.

[39] Not available with the Co.
[40] Megabytes per second.
[41] Public Switched Telephone Network
[42] The project was originally entrusted to Webel Technology Ltd., a subsidiary of the Company and subsequently transferred to the Company from May 2009.
[43] Sanao Equipments Pvt. Ltd., Optilink Networks Pvt. Ltd., Tulip IT Services Ltd., Adino Telecom Ltd. and Motorola.
[44] The authorised sales & support partner of Senao Equipments Pvt. Ltd.

The Company declared (February 2008) the project operational after incurring aggregate capital expenditure of ₹ 1.66 crore and ₹ 15.51 lakh towards maintenance. However, we noticed that the project failed to provide sustainable desired link mainly due to inadequate tower height and infirm structure resulting frequent change in alignment of antenna, inferior quality radio equipments, slack supervision by ISP division, congested frequency band *etc*. Despite these defects, the Company declared technical closure of the project in June 2008.

It was observed that none of the contractors had the capability, resources and logistics to achieve the desired level of service. Test results also depicted that transmissions were poor and much below the required rate of two Mbps. Further, concurrent transmission did not function and failed to support VC. The status[45] of hardware and connectivity links throughout Bardhaman district as of August 2009 showed that in 51 cases there were problems related to antenna, 111 cases related to radio and 145 cases related to computer. As a result, 232 out of 277 GPs had no connectivity. Failure of the project resulted in unfruitful expenditure of ₹ 1.81 crore by the Company.

In order to re-build the connectivity within three years comprehensive maintenance, the Company estimated expenditure of ₹ 8.50 crore. The Company selected Intek Infotec Pvt. Ltd (IIPL) on the basis of open tender and field trials. IIPL re-built connectivity in 31 blocks with 277 GPs at an expenditure of ₹ 3.40 crore.

Management accepting the fact that early closure of the project did not achieve the total target, stated (September 2012) that

- The project was a pilot project and first time in India, they had no other reference to consult and compare with.
- It was not correct to state that the total cost of ₹ 1.81 crore as unfruitful, as in the later stage many of the towers were modified and resorted to match with the advance technology used for the connectivity.

The reply is not convincing as

- Haryana became India's first state to implement SWAN by inaugurating the same in February 2008 while the technical closure of the project in West Bengal was declared in June 2008. Thus there was enough scope for the management to consult and compare various technologies available. Further, the deficiencies in implementation were outcome of poor contract management and lack of capability for implementation of the project.
- It could not utilise any of the equipments and the entire system was rebuilt by IIPL.

Thus, despite expenditure of ₹ 1.81 crore, the objective of spreading e-Governance to underprivileged rural citizens by expanding WBSWAN upto GP remained un-fulfilled due to faulty selection of the contractors and lack of supervision by the Company.

[45] Prepared by BDOs and GP personnel.

3.9 Additional expenditure for early completion of work

West Bengal Electronics Industry Development Corporation Limited incurred additional expenditure of ₹ 0.97 crore towards 'round the clock' execution and cost difference on construction of State Data Centre. Due to avoidable delays, the additional expenditure proved infructuous.

With a view to make all Government services accessible to the common man in his locality at an affordable cost, the National e-Governance Plan (NeGP) envisaged (May 2006) creation of physical and related infrastructure for storing various applications and data for the Government in an integrated manner including construction of State Data Centre (SDC). The infrastructure was to be made operational by March 2009 along with ancillary activities. The Government entrusted (January 2008) West Bengal Electronics Industry Development Corporation Limited (Company) for construction of a building for SDC in its office complex at Salt Lake. The Company appointed (March/ June 2008) West Bengal Consultancy Organisation Limited[46] (WEBCON) as architect for construction of G+3[47] building having foundation for G+7. Accordingly, the architect prepared (February 2009) an estimate of ₹ 4.55 crore[48] including civil work, sanitary/ plumbing, water supply, sewerage/ drainage and roads. The construction was to be completed within four months by working on 'round the clock' basis. The schedule of rates (SOR) provided that if works were to be done on emergency basis at night, additional 10 *per cent* would be applicable to items of night work.

Based on response to newspaper advertisements, the Company invited (February 2009) quotations from Mackintosh Burn Limited[49] (MBL), Braithwaite Burn & Jessop Construction Company Limited[50] and Civcon Construction Private Limited and subsequently, MBL was awarded (June 2009) the work at ₹ 5.38 crore with the approval of the Government. The construction was to be completed by October 2009. MBL completed the work in April 2010 after a delay of six months and was paid ₹ 5.37 crore.

Meanwhile, the Company decided (January 2010) to extend the building vertically upto G+7 for better utilisation of the land. The Government approved (April 2010) the proposal and the Company awarded (May 2010) the work for vertical extension at ₹ 7.04 crore at the existing rates for completion by October 2010. The work of vertical extension was completed in March 2011 at a cost of ₹ 7.01 crore.

We observed that under the applicable SOR, the estimated cost of the work for construction of G+3[51] building having foundation for G+7 was ₹ 3.94 crore. Considering normal rates for the first shift and an additional 10 *per cent* on items of work to be executed during the second and third shift, the estimated cost worked out to ₹ 4.41 crore[52]. The Company had, however, awarded the work at ₹ 5.38 crore *i.e.* at an additional expenditure of ₹ 0.97 crore.

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46 A deemed Government company
47 Ground floor car parking, 1st floor: SDC, 2nd: SDC future expansion, 3rd: Other e-Government project
48 Based on Public Works Department (West Bengal) Schedule of Rates effective from 1 April 2007 with amendments.
49 A State Government company.
50 A Central Government company.
51 Ground floor car parking, 1st floor: SDC, 2nd: SDC future expansion, 3rd: Other e-Government project
52 Including additional five *per cent* towards service tax and cess.

Despite award of the work at higher rate, the anticipated benefit of the additional rate extended to MBL for completing the construction quickly did not materialise since the construction was not completed within the stipulated time. This delay was due to controllable factors such as revision of plans, delay in approval of design and drawings, labour crisis, non-availability of site for road and underground tank *etc*.

Awarding the work at higher rate of ₹ 5.38 crore was mainly due to loading of labour charges during second and third shifts at twice the PWD rate for the first shift as well as additional five *per cent* for hike in prices of cement and steel. This loading was not justified, since the SOR provided for an addition of 10 *per cent* only on items of work to be executed at night. Further, when preparing the estimates, tor[53]/ mild steel utilised in structural works, the architect had considered the rate as ₹ 45,000[54] per MT, whereas from 16 February 2009, the rate was reduced to ₹ 40,000[55] per MT.

Management stated (September 2012) that the situation arising from time to time, which was not attributable to either MBL or the Company, compelled delayed completion of the project. These included problems such as shifting of existing underlying cables of WEBEL Bhavan; MBL not being the turnkey contractor, the Company's need to co-ordinate with other suppliers/ contractors for electrical works, lifts *etc.*; subsequent changes in internal layout for the first and second floors of SDC; delayed decision on nature of glass for structural glazing; compliance of various statutory requirements; carrying out of construction at upper floor through only one staircase etc.

The contention of the Management cannot be accepted since the construction was located within the WEBEL Bhavan premises, the layout of the underlying cables was known to the Management making it a controllable factor. Further all other aspects including need for co-ordination of the construction could have been foreseen and necessary measures to obviate these delays could have been adopted. Change in decision at a later stage could be avoidable by proper planning and monitoring by the Company.

Thus, the benefit of early construction had not been realised since the work was delayed for avoidable causes. Consequently, additional expenditure of ₹ 0.97 crore[56] lakh incurred by the Company proved infructuous.

WEST BENGAL ESSENTIAL COMMODITIES SUPPLY CORPORATION LIMITED

3.10 Avoidable payment of interest due to ineffective cash management

Ineffective cash management by West Bengal Essential Commodities Supply Corporation Limited resulted in avoidable interest outgo of ₹ 2.26 crore on high cost of debt.

West Bengal Essential Commodities Supply Corporation Limited (Company)

53 Most commonly used steel for concrete reinforcement.
54 Based on enhanced rate of 40 *per cent* on SOR rate of ₹ 32,000 per MT, effective 15 May 2008.
55 Based on enhanced rate of 25 *per cent* on SOR rate of ₹ 32,000 per MT.
56 ₹ 5.38 crore less ₹ 4.41crore.

maintained current accounts with various banks.[57] The Company received advances from the Food & Supplies Department (F&S), Government of West Bengal (Government) for the period 2002-2007[58] for procuring Custom Milled Rice (CMR) which was discontinued from KMS 2007-08 onwards. Consequently, the Company required additional funds for working capital.

With a view to ease the working capital crunch, the Government decided (March 2008) that the Company would approach West Bengal State Co-operative Bank (WBSCB) for cash credit facilities (CC) to be guaranteed by the Government. Subsequently, a CC account was opened (May 2008) with credit limit of ₹ 150 crore, with ₹ 40 crore exclusively for CMR operations, carrying interest at the rate of 11.50 (March 2009 - December 2009) and 10 *per cent* (January 2010 - February 2012). The Company also proceeded (May 2008) to open a savings account with Axis Bank (AB), Salt Lake. Thereafter, the Company had regularly transferred fund from CC with WBSCB and current account with SBI to AB for disbursement to suppliers and creditors.

We noticed (March 2012) that no reason for opening savings account with AB was on record. During March 2009 to February 2012, the daily closing balances in AB ranged between ₹ 46.37 lakh and ₹ 59.30 crore on which the Company had earned interest of ₹ 1.18 crore. By transferring fund from CC with WBSCB to savings bank with AB, the Company had, in the same period, incurred interest[59] of ₹ 3.44 crore on those amounts appearing as daily closing balances in the savings bank with AB. Had the Company not made these transfers, it could have avoided paying interest of ₹ 2.26 crore, after netting off interest earned of ₹ 1.18 crore.

The Management stated (July 2012) that they had preferred making payment to the suppliers from AB instead of WBSCB due to the constraints in banking facilities of the latter. They also stated that other banks had been approached but were not positively responded.

The reply is not acceptable as the Company had been transferring funds from WBSCB to AB using Real Time Gross Settlement (RTGS) facilities which could have been used for making payment to the suppliers from WBSCB directly. Moreover, instances about the Company approaching its existing bankers for CC facilities were not found on records.

Thus, the Company's failure to manage funds effectively led to avoidable interest of ₹ 2.26 crore on cash credit.

WEST BENGAL INDUSTRIAL DEVELOPMENT CORPORATION LIMITED

3.11 Loss due to incorrect fixation of land premium

West Bengal Industrial Development Corporation Limited incurred loss of ₹ 2.85 crore due to fixation of lease premium for land on '*ad-hoc*' basis.

The Government of West Bengal received a proposal from Telco Construction

[57] State Bank of India, Punjab National Bank, Punjab & Sind Bank, United Bank of India, Union Bank of India, Syndicate Bank etc.

[58] i.e. KMS 2002-03 to KMS 2006-07 where the Khariff Marketing Season (KMS) starts from October and ends in September of subsequent calendar year.

[59] WBSCB had charged interest on daily outstanding balances of CC.

Equipment Company Limited[60] (TELCON) to establish a factory for manufacturing construction and mining equipment. Accordingly, the Government decided (May 2006) to acquire and lease out land near Kharagpur, Paschim Medinipur to West Bengal Industrial Development Corporation Limited (Company), for setting up an industrial estate *viz.* Vidyasagar Industrial Park (VIP). TELCON was to be the anchor investor[61] at VIP.

Till March 2011, the Company had taken possession of 1,150.29 acres at a cost of ₹ 119.15 crore. Out of 1,150.29 acres, 977.75 acres was available for allotment while the remaining 172.54 acres (15 *per cent*) was required for development of common infrastructure.

The Company received possession (May to July 2007) of 439.001 acres land from the Government[62] at a cost of ₹ 37.56 crore. Thereafter, it entered into an agreement (November 2007) with TELCON for sub-leasing out 250 acres land for 99 years[63] at a premium of ₹ 23.40[64] crore. After realising (November/ December 2007) the entire premium from TELCON, the Company entered (December 2007) into a sub-lease deed with them.

The Government notified (February 2006) that when land was given on lease for 99 years, 95 *per cent* of the market value was recoverable upfront as premium (salami). The market value would include acquisition cost of land as well as charges of and incidental to, such as administrative, management, legal and contingency charges. The Company had, however, fixed lease premium for sub-lease of land sub-leased to TELCON on '*ad-hoc*' basis at an 'early bird rate'[65] of ₹ 9.36 lakh per acre, without reference to cost incurred.

Audit observed (November 2011) that the Company had received land premium from TELCON only in November/ December 2007. It had, therefore, envisaged interest of ₹ 3.49 crore at 10 *per cent* up to December 2007 as an element of cost on the initial investment of ₹ 37.56 crore towards cost of bare land. Besides, actual administrative expenditure incurred for the land was ₹ 17.39 lakh. Thus, acquisition cost of 439.001 acres aggregated to ₹ 41.22[66] crore. After setting aside 15 *per cent* of total area (439.001 acres) for common infrastructure facilities/ amenities, 373.151 acres was available for allotment. Consequently, effective cost of saleable land worked out to ₹ 11.05[67] lakh per acre. The lease premium at 95 *per cent* worked out to ₹ 10.50 lakh per acre.

The Management/ Government stated (August/ October 2012) that TELCON had developed its infrastructure at its own cost. Moreover, ₹ 40.93[68] crore was incurred to acquire 439.001 acres, the cost per acre worked out to ₹ 9.32 lakh. Since, the premium realised was ₹ 9.36 lakh per acre, there was no loss. Besides, not only would the presence of TELCON boost up the local economy, the local landowners would benefit from the increase in price of land due to implementation of VIP.

60 A joint venture of the Tata and Hitachi groups
61 An investor whose presence would attract other investors.
62 Lease deed was executed by the Company with the Government in December 2007.
63 For initial period of 99 years, renewable for another period of 99 years.
64 At the rate of ₹ 9.36 lakh per acre for 250 acres.
65 As the first applicant at a lower rate
66 Land: ₹ 37.56 crore, interest: ₹ 3.49 crore and administrative expenses: ₹ 17.39 lakh
67 Total expenditure: ₹ 41.22 crore for 373.151 acres of allocable land.
68 Cost of bare land acquired: ₹ 37.56 crore, actual administrative expenditure: ₹ 17.39 lakh, interest : ₹ 2.72 crore, Company's administrative cost : ₹ 3.77 crore less proportionate refund of ₹ 3.29 crore.

The contention was not tenable as lease premium was fixed at '*ad-hoc'* rates. Also, the lease deed for 439.001 acres registered in December 2007 was for actual amount and the refund received in June 2012 was not by way of reduction in cost. Moreover, out of 439.001 acres of land acquired, only 373.151 acres was allocable as proportionate 15 *per cent* of the land acquired was required for common infrastructure facilities/ amenities. Hence, cost per acre would be ₹ 11.05 lakh and not ₹ 9.32 lakh.

Thus, due to fixation of lease premium for land on '*ad-hoc*' basis, the Company incurred loss of ₹ 2.85 crore[69] on allotment of land to TELCON.

THE ELECTRO MEDICAL & ALLIED INDUSTRIES LIMITED

3.12 Avoidable payment to contractual staff

Despite stoppage of production at its Blood Bag Division from June 2009, Electro Medical & Allied Industries Limited continued to incur idle wages of ₹ 1.61 crore upto December 2012, on manpower provided by external agencies on contract.

The Blood Bag Division (BBD) of Electro Medical & Allied Industries Limited (Company) was established in 2001 and started production in January 2002. In order to keep the fixed cost in tight control in the Blood Bag project, the Company decided (May 2000) to contract out services such as operations and maintenance of main plant, utilities, security, transport, sweeping/ cleaning *etc*. Accordingly, the Company engaged 45 employees through external agencies for housekeeping, production, maintenance and allied functional areas. It had also directly engaged seven employees on contract basis for production related activities.

During June 2009, a High Frequency Welding Machine (Machine) purchased (2001) from the Netherlands went out of order. The Company followed up (January 2010) with the original manufacturer for repair of the machine and imported (June 2010) spares of ₹ 19.95 lakh. When the Company, however, attempted to repair the machine with its employees, the imported spares did not match. The Company was unwilling to incur further expenditure of ₹ 8.03 lakh to get the manufacturer's technicians to re-commission the machine. Consequently, there was complete suspension of production since June 2009. Although BBD was non-operational since June 2009, the Company had not dispensed with the services of 44[70] individuals excluding eight security and housekeeping staff. The Company incurred (August 2009 and December 2012) ₹ 1.61 crore towards salaries and wages of these 44 individuals. The idle wage cost was met from its meagre resources and Government loan.

[69] ₹ 1.14 lakh per acre (10.50-9.36) × 250 = ₹ 2.85
[70] 37 individuals through external agency and seven on contract basis.

The Government stated (December 2012) that despite stoppage of production these contractual employees were retained on the payroll in view of the sustained efforts to rectify the defects of the machine. Further, M/s. Gluconate Health Limited, another State PSU, had proposed (May 2012) to restart production of blood bags and other allied products in the BBD as a joint venture with the Company. The matter was under process/ consideration of the Government. Gluconate Health Limited had also started preparing a techno-economic feasibility report.

Thus, the Company's decision to continue with the services of these contractual employees despite stoppage of production from August 2009 lack justification as the Company could re-employ the services of the contractual employees at the time of restarting the production and thereby avoid payment of idle wages of ₹ 1.61 crore.

WEST BENGAL STATE SEED CORPORATION LIMITED AND WEST BENGAL INDUSTRIAL INFRASTRUCTURE DEVELOPMENT CORPORATION

3.13 Payment of avoidable interest due to delayed finalisation of accounts

West Bengal State Seed Corporation Limited and West Bengal Industrial Infrastructure Development Corporation persistently failed to finalise their annual accounts on time and therefore could not estimate their annual income liable to tax. Consequently, they had to pay interest of ₹ 1.68 crore for short deposit of advance tax/ self assessment tax.

Under the provisions of Section 139 and 140A of the Income Tax Act, 1961 (Act), at the close of each financial year, every company must assess its tax liability for the year, adjust both advance tax paid and tax deducted at source, deposit balance tax payable on self assessment and file returns within 30 September of the assessment year[71] (AY). Besides, as per Section 115JB of the Act, if tax payable on the total income is less[72] than the book profit, the company is required to pay minimum alternative tax (MAT). Whereas delayed submission of returns attract interest at the rate of one *per cent* per month on assessed income/ amount of tax short deposited under Section 234A of the Act, Section 234C provides that if the total advance tax deposited during the year is less than 90 *per cent* of the assessed tax, then interest at one *per cent* per month or part thereof on unpaid amount of tax shall be payable from 1 April of the subsequent year till the entire tax was deposited.

The Act, *ibid,* also provides that the company has to estimate and deposit[73] four quarterly instalments of advance tax aggregating to 15 *per cent*, 45 *per cent*, 75 *per cent* and 100 *per cent* respectively of the assessed tax[74]. If the aggregate advance tax deposited falls short of the instalments, the company would have to pay monthly interest at one *per cent* on the amount of shortfall under Section 234B.

[71] As per Sec 2(9) of the Act, AY means the period of 12 months commencing on the 1st day of April every year, following completion of the financial year on 31 March immediately preceding.
[72] 7.5 per cent for AY 2001-02 to 2006-07; 10 per cent for AY 2007-08 to 2009-10; 15 per cent for AY 2010-11
[73] On or before 15 June, 15 September, 15 December and 15 March of the financial year
[74] The total income tax liability for a financial year as reduced by tax deducted at source credits received.

Two PSUs earned profits *viz*. West Bengal State Seed Corporation Limited (WBSSCL) during the financial years 2005-06 to 2008-09 and West Bengal Industrial Infrastructure Development Corporation (WBIIDC) during the financial years 2002-03 to 2008-09. These PSUs had deposited quarterly payment of advance tax based on the projected income of each year. It is imperative that an entity prepare its financial statements within due time to ascertain their performance. WBSSCL finalised their annual accounts for the said financial years after delays of 255 to 438 days from the due date of the immediately following financial year. Similarly, WBIIDC delayed in finalising their annual accounts by 588 to 1,267 days and did not submit their annual return of income within the prescribed date.

These delays in finalisation of annual accounts resulted in both the PSUs being unable to accurately estimate their annual taxable income, which in turn led to short deposit of advance tax and self assessment tax. The shortfall in payment of advance tax was not made good even in the last quarter in March of each year by either PSU, thus attracting interest on such short deposit under Sections 234A, 234B and 234C of the Act. Consequently, WBSSCL and WBIIDC had to pay interest of ₹ 1.05 crore[75] on such short deposit for the AY 2006-07 to 2009-10 corresponding to financial years 2005-06 to 2008-09 and ₹ 0.63 crore[76] for the AY 2003-04 to 2009-10 corresponding to financial years 2002-03 to 2008 -09 respectively. Assessment for the year 2010-11 had not yet been completed (June 2012).

While admitting that there had been delays in finalisation of accounts, WBSSCL attributed (June 2012) the shortfall in payment of advance tax to the sharp increase in profits and shortage of manpower. They further stated that they had resorted to outsourcing for preparation and finalisation of accounts from the year 2010-11.

These reasons are not tenable since the profits had not arisen from windfall gains or unforeseen income. These profits were the outcome of the normal business and hence should have been factored into the income estimates. Moreover, since the Company was aware of the manpower shortage and could have resorted to outsourcing at an earlier point of time.

According to WBIIDC (June 2012), as their activities were scattered across the entire State, the finalisation of accounts was time consuming. Further, WBIIDC also stated that earlier their income was exempt from tax under Section 10(20A) up to the assessment year 2002-03 and from the assessment year 2003-04 they claimed exemption under Section 80IA. WBIIDC had not deposited advance tax in anticipation of enjoying the tax exemption thereafter. Moreover, the amount of advance tax not deposited was parked in fixed deposits to earn interest.

WBIIDC had overlooked the fact that it was liable to MAT on its book profits since the tax on normal provisions was lower. Also the WBIIDC rules 1974 specified that WBIIDC was to submit to the State Government accounts upto the end of the quarter immediately preceding, in April, July, October and

[75] ₹ 2006-07 - ₹0.11 lakh; 2007-08 - ₹44.85 lakh; 2008-09 - ₹46.17 lakh, & 2009-10 - ₹13.44 lakh.
[76] 2003-04 - ₹ 0.23 crore; 2004-05 - not yet paid; 2005-06 - ₹ 0.02 crore; 2006-07 - ₹ 0.03 crore; 2007-08 - ₹ 0.05 crore; 2008-09 - ₹ 0.28 crore; & 2009-10 - ₹ 0.02 crore.

January of each year. Besides, withholding payment of statutory dues to retain the amount in interest-bearing term deposits is against the canons of prudent financial management.

The financial statements and accounts provide assurance not only on the financial strength of the Company but also on the efficiency of its operational strength. Delays in finalisation of annual accounts by WBSSCL and WBIIDC led to inaccurate estimation of their taxable incomes resulting in avoidable payment of interest of ₹ 1.68 crore (₹ 1.05 crore + ₹ 0.63 crore) for short deposit of advance tax and self assessment tax.

Statutory Corporation

CALCUTTA STATE TRANSPORT CORPORATION

3.14 Loss of revenue on hiring out of buses

Calcutta State Transport Corporation sustained loss of revenue of, at least, ₹ 1.58 crore due to fixation of rates for hiring out of buses below cost of operations, failure to assess actual charges recoverable based on retention of buses and recovery of hire charges below prescribed rates.

Under Road Transport Act 1950[77], Calcutta State Transport Corporation (Corporation) is to carry on its operations on sound business principles. Further, it could hire out vehicles for carriage of passengers with prior approval of the State Government. With a view to cover steep hike in price of high speed diesel and consequent rise in cost of operations, the Corporation decided (January 2000) that buses for city[78] and long distance services[79] (LDS) would be hired out on commercial terms and on "No Profit No Loss" basis. Thereafter, the Corporation intermittently revised hire charges, maximum retention time or maximum distance. The minimum hire charges and additional hire charges beyond maximum retention time as prescribed by the Corporation between April 2007 and March 2011 were as follows:

Table 3.2 : Summarised position of hire charges *etc.*

	Class of bus → / Particulars ↓	City Service	LDS
1)	Maximum distance (Km)	100	250/300
2)	Minimum hire charges (₹)	2,750 - 4,500	4,550 - 6,000
3)	Maximum retention time (hours)	7.5	12
4)	Additional hire charges due to excess retention (₹ per hour)	390 to 700	390 to 700
5)	Security deposit (₹)	600	1,200

77 Under section 19 (3) (iv) & 22 of Road Transport Act, 1950.
78 Journeys within the city and suburban areas for round trip up to 100 Km.
79 Journeys within the city or rural areas for round trip up to 250/300 Km.

Depot managers were to receive applications for hiring out of buses and after obtaining sanction from Director of Operations (DOP), realise prescribed hire charges in advance along with security deposits. Only after completion of journeys and recovery of actual hire charges based on movements, the Corporation was to refund these security deposits. Further, the Chairman of the Corporation, the Managing Director (MD) and the DOP were authorised to grant concessions to the students and the Corporation's employees. Besides, the Corporation's Board of Directors empowered (January 2002) the MD to extend concession up to 50 *per cent* on hire of buses for 'social purposes', but had not defined the parameters.

The Corporation had no Management Information System (MIS) for hiring out of buses. Hence, it was not possible to match the details like date-wise number of buses sanctioned for hire, advance hiring charges and security deposits received, actual duration of hire, distance travelled, total charges billed on completion of journey, adjustment of security deposit and actual release of security deposit *etc.* of buses operated on hire with payments realised. Further, at six[80] depots selected for test check, movement charts indicating instances of hire, duration of hire and distances travelled, though generated, were not available at every instance. Besides, class of bus *viz.* city service or LDS was not mentioned. As a result, hiring out of buses was susceptible to leakage of revenue.

During 2007-08 to 2010-11, the Corporation earned revenue of ₹ 1.66 crore[81] from hiring out of buses. It was noticed (March/ April 2011) in audit that the Corporation had forgone revenue of at least, ₹ 1.58 crore[82] due to fixation of rates for hiring out of buses below cost of operations, recovery of hire charges below prescribed rates and failure to assess actual charges recoverable based on retention of buses as detailed below:

Hiring out of buses below cost of operations

The basis of fixation of hiring charges and cost per Km for both class of services were not available. During 2007-08 to 2010-11, the Corporation revised hire charges on three occasions in January 2008, January 2009 and December 2009. Hiring charges fixed fell short of cost of operations by 28 to 46 *per cent*.

Examination of reports at the six selected depots recording daily distances covered by 905 buses hired out during April 2007 to March 2011, brought out that reports for seven buses were not available, while the remaining 898 buses were shown to have covered 1.60 lakh Km. Against the Corporation's recoverable cost of ₹ 109.67 lakh, it could realise ₹ 65.10 lakh only resulting in short recovery of ₹ 44.57 lakh due to fixing of hiring charges below cost of operations.

The Management stated (November 2012) that hiring charges were revised with approval of the then MDs, on the weighted average of fare revisions mainly due to price hike in high speed diesel. Based on approvals for two fare

[80] Out of the Corporation's 11 depots.
[81] Revenue from bus reservation (A/C 310308): 2007-08: ₹ 45.78 lakh, 2008-09: ₹ 43.43 lakh, 2009-10: ₹ 39.89 lakh and 2010-11: ₹ 37.14 lakh (provisional).
[82] Assuming that all the buses hired out were of city service class only as separate data for both types of services was not available.

revisions in 2009 made available by the Management, we observed that in January 2009, the charges fixed in 2008 were enhanced by 10.39 *per cent* for city service class against increase in cost of 10.33 *per cent*. However, since the rates fixed in 2007-08 were lower than actual cost, the enhanced rates were below cost by 38 *per cent*. Even the subsequent revision in December 2009 by 12.5 *per cent* for city service class was not adequate to bridge the gap between cost and revenue.

Failure to assess actual charges recoverable based on retention time

Analysis of payments received *vis-à-vis* actual movement of buses on hire brought out that on completion of journey; all six selected depots did not calculate hire charges recoverable based on actual retention time of buses. Test check of 905 buses cited earlier brought out that retention time of only

895 buses was on record. Out of 895 buses, 860 were retained for 30 minutes to 28.5 hours beyond maximum retention period of 7.5 hours. The retention charges not recovered by the Corporation worked out to ₹ 42.19 lakh.

Recovery of hire charges below prescribed rates

It was seen from the records made available at the Central Traffic Office (CTO) that during April 2007 and March 2011, the Corporation had hired out 3,241 buses on 192 instances earning ₹ 60.21 lakh. But the Management had not obtained security deposits since earlier delays in refunding these deposits to the hirers had led to serious resentment and the approved directions for hiring out of buses to different organisations/ individuals had not specified that security deposits had to be realised from the hirers. It was observed that —

- Out of 351 buses, in 42 instances the prescribed hire charges of ₹ 15.74 lakh had been realised.
- In 29 instances, 71 buses were hired out without recovering hire charges of ₹ 0.67 lakh. Besides, in another four instances, against hire charges of ₹ 1.67 lakh recoverable[83] for 44 buses, the actual amount realised was not ascertainable.
- In 61 instances, the DOP had, at the instance of the then Minister-in-Charge (MIC), Transport Department, Government of West Bengal, arbitrarily sanctioned hiring out[84] of 2,279 buses at discounts of 23 to 100 *per cent* to the prescribed rates without reference to distance covered or duration of hire. Against billable revenue of ₹ 95.41 lakh, the Corporation received only ₹ 38.46 lakh, thereby foregoing revenue of ₹ 56.95 lakh.
- Similarly, on remaining 56 occasions, 496 buses were hired out to Defence authorities, Memorial Committees, Welfare associations, MIC- Backward Classes Welfare *etc*. below the specified rates. The amount realised was only ₹ 6.01 lakh instead of ₹ 17.79 lakh resulting in revenue leakage of ₹ 11.78 lakh.

[83] From Sports & Youth Affairs Department, West Bengal; Committee for State School Games & Sports; & West Bengal Sports Association for the Deaf.

[84] To Communist Party of India (Marxist), Democratic Youth Federation of India, All India Forward Bloc, Socialist Unity Centre of India (Communist), Centre for Indian Trade Unions, West Bengal Housing Infrastructure Development Corporation Limited *etc*.

Resultantly, the Corporation earned only ₹ 60.21 lakh[85] against actual charges realisable of not less than ₹ 131.28 lakh[86] and sustained loss of ₹ 71.07 lakh.

On being pointed out (March 2011), the Corporation discontinued hiring out of buses from June 2011. However, no responsibility had been fixed for the loss sustained.

While accepting (August/ September/ November 2012) the audit observations, the Government/ management stated that vehicles were given on hire even 'free of cost' with approval of the Minister-in-Charge or Additional Chief Secretary, Transport Department, Government of West Bengal. The reply is not acceptable since concession up to a maximum of 50 *per cent* was allowed to be sanctioned by the Chairman. They also stated that in four instances retention charges of ₹ 7,000/- were recovered. However, the management remained silent about recovery of retention charges in the instances which were pointed out by Audit.

Thus, by fixing of hiring charges below cost of operations, failure to levy hire charges for retention of buses beyond maximum duration and hiring out of buses below the prescribed rates, the Corporation had forgone revenue of ₹ 1.58 crore[87].

(MAUSUMI RAY BHATTACHARYYA)

Kolkata **Accountant General**
The **(Economic and Revenue Sector Audit)**
West Bengal

Countersigned

New Delhi **(VINOD RAI)**
The **Comptroller and Auditor General of India**

85 ₹ (15.74+38.46+6.01) lakh
86 ₹ (15.74+0.67+1.67+95.41+17.79) lakh
87 ₹ 44.57 lakh + ₹ 42.19 lakh + ₹ 71.07 lakh