Chapter III

Transaction Audit Observations

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

Government Companies

West Bengal State Electricity Transmission Company Limited

3.1 Loss due to delay in construction of a sub-station

Inordinate delay in construction of 220/132 KV sub-station at Bishnupur led to transmission of power at lower voltage in the area from distances of 52 Km and 88 Km resulting in excess transmission loss of 88.51 MU power valued at Rs. 28.30 crore.

Transmission of power at higher voltage leads to reduction in transmission losses. So, transmission losses at 220 KV would be less than the loss incurred in transmitting power at 132 KV. Further, transmission losses rise with increase in distance over which power is transmitted.

West Bengal State Electricity Transmission Company Limited[1] (Company) supplied power to its 132/33 KV sub-stations at Bishnupur (capacity: 100 MVA) and Bankura (capacity: 63 MVA) from Durgapur 220/132 KV sub-station through 132 KV double circuit (DC) line. These lines had a length of 52 Km between Durgapur and Bishnupur and 36 Km from Bishnupur to Bankura. The Durgapur-Bishnupur segment of this line was supplying power to meet average maximum demand of 97 MVA for Bankura and Bishnupur. Subsequently, the Company set up (November 2002) a 220/132 KV sub-station at Midnapore and drew a double circuit transmission line to Bishnupur sub-station. This Midnapore-Bishnupur 88 Km long line also catered to the demand of all four EHV[2] consumers (contract demand: 94.6 MVA) at Bishnupur. This arrangement of transmitting power over a long route length led to problem of low voltage and excess transmission and distribution (T&D) loss.

In order to improve voltage, reduce the T&D loss as well as to fulfill the growing load demand in Bishnupur industrial area, the Company prepared (October 2002) a detailed project report (DPR) to construct a 220/132 KV

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[1] Erstwhile West Bengal State Electricity Board.

[2] Extra high voltage.

sub-station at Bishnupur within three years at an estimated cost of Rs. 24.17 crore. The cost was to be financed out of loan from Rural Electrification Corporation Limited (REC). Power for this 220/132 KV sub-station was to be sourced from the existing 220 KV Santaldih-Bishnupur-Arambag line.

Against the tender invited (November 2004) the Company received four offers and the offer of ABB Limited (ABB) was found (October 2005) to be the lowest. The Company placed two letters of award on ABB in January 2006 at a negotiated price of Rs. 30.74 crore for supply (Rs. 23.98 crore) and erection (Rs. 6.76 crore) of the sub-station with scheduled completion time of 28 months.

It was noticed that against the envisaged time frame in the DPR for completion by September 2006, the construction of the sub-station was actually completed (March 2008) after a delays of 39 months. The delay was attributable to controllable factors like delay in approval of the DPR by Company's Board (seven months), obtaining sanction for loan from REC on account of incomplete DPR (six months), land acquisition due to submission of defective proposal (13 months), floating of tender (four months) and evaluation of technical and commercial bid (11 months). Consequently, the objective of meeting the demand of 97 MVA for Bishnupur and Bankura 132/33 KV sub-stations as well as 94.6 MVA demand of four EHV consumers from Bishnupur itself was not achieved and the reduction of route length for transmission of power over 52 Km (Durgapur-Bishnupur line) and 88 Km (Midnapore-Bishnupur line) failed to materialise. Delay in setting-up the sub-station due to controllable factors led to excess transmission loss of 88.51 million units of power valued at Rs. 28.30 crore during October 2006 to March 2008 as detailed in the **Annexure 28**.

The Government / Management stated (August 2008) that on receipt of enhanced demand from bulk consumers the Company took up the project for establishment of 220/ 132 KV substation. But the project was delayed due to obtaining clearance / approval from various external organisations for which the Company had no or little control over the delays occurred with those authorities.

The reply is factually incorrect as delay of 39 months occurred due to delays in approving DPR by the Management, sanction of loan from REC on account of inadequate details furnished in DPR, land acquisition due to submission of defective proposal, delay in floating of tender as well as evaluation of technical and commercial bids which could have been avoided by better planning.

West Bengal State Electricity Distribution Company Limited

3.2 Loss of revenue

Despite availability of power and infrastructure the Company delayed releasing additional demand to two consumers and imposed unnecessary restriction on drawal of power during peak hours resulting in loss of revenue of Rs. 2.28 crore.

West Bengal State Electricity Distribution Company Limited (Company) was supplying power to Rohit Ferro Tech Limited (RFTL) and Modern India Concast Limited (MICL) at Bishnupur having contract demand (CD) of 25 MVA and 10.5 MVA respectively since October 2003 / June 2004. Both the consumers were receiving power at 132 KV from 220/132 KV Midnapur sub-station through a double circuit line drawn up to Bishnupur 132/33 KV sub-station bus with a 'loop-in loop-out' on one circuit at Chandrakona Road (CKR) sub-station. This circuit was capable of feeding 30 MVA power to Bishnupur after meeting the load of 40 MVA at Chandrakona Road. The other circuit, straight from Midnapur to Bishnupur sub-station, was capable of feeding power upto 70 MVA at Bishnupur. Thus, this double circuit line had a capacity of 100 MVA.

RFTL and MICL applied (March / April 2006) for additional demand of 10 MVA and 7.5 MVA respectively from September/ October 2006. The Company assessed (June-July 2006) the available capacity at Midnapur sub-station (Installed capacity: 320 MVA) and found that during peak hours of March to May 2006 the capacity of the sub-station was fully utilised. However, the Company did not analyse the annual load pattern of the sub-station and limited the assessment to the immediate preceding three months. Moreover, the Company also did not explore the possibility of distributing the load among its adjoining sub-stations.

Ultimately, the Company released (August 2006) the enhanced demand to RFTL & MICL with the condition that they would not be allowed to draw enhanced load during evening peak hours[3]. Further, RFTL and MICL would be allowed rebate on demand charges and load factor. Under the regulations[4] of WBERC, enhanced load was required to be released to RFTL and MICL by September/ October 2006, but the Company belatedly connected the additional load only from January (MICL) and February (RFTL) 2007 for which no reason was on record. Thus, due to delay of three to four months, the Company suffered loss of revenue of Rs. 1.12 crore[5] towards demand charges.

The Company reviewed the demand position in April 2007, when Transmission wing of the Company opined that since existing load of the

[3] 17 hours to 22 hours of the day.

[4] Clause 4.1 of the Regulation 24 of October 2005 by West Bengal Electricity Regulatory Commission stipulated that if a consumer requires only extension of the CD the same should have been released within one month from the date of receipt of application.

[5] Rs. 1.80 lakh/MVA/month x 7.5 MVA x 3 months plus Rs. 1.80 lakh/MVA/month x 10 MVA x 4 months.

double circuit line from Midnapur sub-station was adequate to meet the demand of all 132 KV consumers of Bishnupur area there was no need to restrict drawal of power by RFTL and MICL during peak hours. Consequently, the Company withdrew the restriction from 1 May 2007. It was observed that had no restriction been imposed on RFTL and MICL, they could have drawn requisite power of 5.05 million units for which the Company could have earned additional revenue of Rs. 93.99 lakh after adjusting the cost of power. Further, due to imposition of restriction on drawal of power during evening peak hours from January / February 2007 to April 2007, the Company also had to allow rebate of Rs. 22.38 lakh on demand charges (Rs. 12.15 lakh) and load factor (Rs. 10.23 lakh) to RFTL and MICL.

Thus, due to delay in releasing additional demand to consumers and unnecessary imposition of restriction on drawal of power in peak hours despite availability of power and infrastructure, the Company suffered loss of revenue of Rs. 2.28 crore.

The Government/ Management stated (July 2008) that due to power constraint enhancement of load was released barring the peak hours, otherwise the Company had to restrict committed contractual load of others. In consideration of revenue earning the Company prudently released the enhanced load by imposing restriction in peak hours only due to technical reason though as a normal rule power cannot be released unless it can be ascertained for 24 x 7 hours. The reply is contrary to the facts because **(a)** while evaluating the proposal for enhancement of load, the Company assessed the available transformer capacity of Midnapur sub-station and not the availability of power; **(b)** the consumers applied for additional demand (17.5 MVA) in September/ October 2006 which could have been met because of the available spare capacity of sub-station ranging from 21 to 120 MVA during June 2006 onwards due to distribution of load of Midnapur sub-station to other adjoining sub-stations. The Management was, however, silent on the belated release of connection of additional load for which it suffered loss of demand charges of Rs. 1.12 crore.

In order to assess the regional demand and availability of power, the Company should analyse load pattern over a longer time period and adopt a co-ordinated approach so that future demand could be met with optimum utilisation of infrastructure.

3.3 Extra expenditure on procurement of conductors

Despite withdrawal of price preference policy extended to State based parties by the State Government, the Company allowed the same on purchase of 12,732 km of conductors and thereby incurred an extra expenditure of Rs. 1.40 crore.

West Bengal State Electricity Distribution Company Limited (Company) invited (October 2004) tender for purchase of 31,493 Kms of conductors of

six[6]different types for rural electrification works. The notice inviting tender (NIT) did not include any clause of allowing price preference to State based parties in line with the State Government's purchase policy[7]. In response to the tender, 21 parties submitted (December 2004) their bids, of which 18 were selected on techno-commercial parameters. Before opening of the price bid the State Government exempted (9 February 2005) the Company from making compulsory purchase of ACSR and AAC conductors from the registered State based small scale units after allowing price preference to them.

After opening (15 February 2005) of the price bid, only one State based party was found to be the lowest bidder in respect of AAC-Ant conductor, while two other outside- State based parties were the lowest bidders for the balance five types. Though the policy of extending price preference to State based parties was withdrawn in February 2005, the Company prepared (March 2005) the comparative statement after allowing 10 to 15 *per cent* price preference for the State based parties over the ex-works price offered by L1 bidders from outside the State. As a result, four State based parties became lowest bidders for all the six types. The prices were arrived at after allowing price preference were, however, found to be 6.10 to 11.67 *per cent* higher than the original L1 bids of outside state based parties for 'Squirrel', 'Weasel', 'Rabbit' and 'Dog' type conductor.

On negotiation (March – June 2005) the State based parties finally offered their lowest landed price of Rs. 10,272 (Squirrel), Rs. 14,527 (Weasel), Rs. 24,162 (Rabbit) and Rs. 47,675 (Dog) per Km which were still higher by Rs. 922 (Squirrel), Rs. 727 (Weasel), Rs. 1,212 (Rabbit) and Rs. 2,175 (Dog) per Km than the original L1 rates received from outside- State based parties. Contrary to the provision of NIT and Government directive (February 2005), the Company accepted (August 2005) these higher rates and placed (August 2005/ February 2006) 18 purchase orders on 17 State based parties for procurement of 12,732 Km[8] of 'Squirrel', 'Weasel', 'Rabbit' and 'Dog' type conductors valued Rs. 26.91 crore. The supply was completed by April 2006. This resulted in extra expenditure of Rs. 1.40 crore.

The Government/Management stated (June 2008) that the effect of withdrawal of price preference could not be implemented since Government notification was issued at a later date as compared to the date of actual submission of bid documents.

The reply does not address the facts that **(a)** the Government had withdrawn the price preference policy before opening of price bid, and **(b)** general terms and conditions of NIT stipulated that prevailing rules would be applicable for finalisation of the tender.

Thus, despite the withdrawal of price preference policy allowed to the State based parties, the Company's decision to allow the same in deviation of the

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[6] AAC 'Gnat' – 13,750 Km, AAC 'Ant' – 2,875 Km, ACSR 'Squirrel' – 2,875 Km, ACSR 'Weasel' – 6,875 Km, ACSR 'Rabbit'-3,118 Km and ACSR 'Dog' – 2,000 Km.
[7] Rule 47A of West Bengal Financial Rules.
[8] Squirrel – 2,215 Km, Weasel – 5,615 Km, Rabbit – 2,930 Km and Dog – 1,972 Km.

NIT resulted in extra expenditure of Rs. 1.40 crore on procurement of conductors and extended undue benefit to the State based parties to that extent.

The Durgapur Projects Limited

3.4 Avoidable expenditure

The Company failed to obtain excise duty exemption certificate from the competent authority for its water system plant and thereby incurred avoidable expenditure of Rs. 2.38 crore towards payment of excise duty to the supplier.

As per the Government of India's order (January 2004) the payment of excise duty is exempted on all items of machinery and their components / parts and pipes required for setting up the water supply plant for agricultural or industrial use. To avail this exemption, the user is to obtain a certificate from the concerned District Collector/ Deputy Commissioner / District Magistrate to the effect that the goods are cleared for the intended use and to produce the same to the Central Excise authority.

The Durgapur Projects Limited (Company) issued (December 2004) a letter of award (LOA) on Va Tech Wabag Limited (VTWL) for supply of equipment and materials for the water system plant in its upcoming power generating Unit-7 at a total cost of Rs. 52.04 crore. The LOA *inter-alia* stipulated that the Company was responsible to obtain the requisite certificate from the competent authority to avail excise duty exemption. In absence of such certificate, the Company would be liable to reimburse the excise duty to VTWL on presentation of documentary evidence.

It was noticed that the Company did not take any initiative to obtain exemption certificate from the District Collector (DC) though DC was one of the directors of the Board of the Company. Consequently, the Company incurred (December 2005 – March 2007) avoidable expenditure of Rs. 2.38 crore towards reimbursement of excise duty to VTWL as per their claim.

While accepting the facts the Management stated (May 2008) that though the money could have been saved by production of exemption certificate, but the Company would recover this cost through tariff as the total project cost of Unit-7 had been allowed by WBERC[9].

The reply itself indicated the intention of the Management to pass on its failure to consumers who would be compelled to bear this cost of inefficiency through higher tariff contrary to the objective of National Electricity Policy.

The matter was reported to Government (June 2008); their reply was awaited (September 2008).

[9] West Bengal Electricity Regulatory Commission.

West Bengal Power Development Corporation Limited

3.5 Extra expenditure due to failure in availing discount

Despite requirement of 10 ring and ball sets for its coal mills, the Company failed to evaluate the supplier's proposal for purchase of 10 sets at a discount of five *per cent* which led to extra expenditure of Rs. 1.11 crore.

Bakreswar Thermal Power Project (BkTPP) of West Bengal Power Development Corporation Limited (Company) had 18 coal mills to feed pulverised coal for its three generating units. These coal mills were fitted with ring and ball sets, imported from the original equipment manufacturer, Mitsui Babcock Energy Limited[10], U.K. (MBEL). Each coal mill required replacement of one set of ring and ball sets during overhauling after running of 380 to 445 days. In February 2006 the BkTPP management assessed the requirement of 10 ring and ball sets for ensuing overhauling to be carried out from February 2006 to June 2007. Considering the high cost of 10 sets (estimated cost: Rs. 13 crore), the Company decided (February 2006) to purchase five sets. Accordingly, quotation was invited (March 2006) from MBEL for five sets. In response MBEL submitted (March/April 2006) two quotations one for supply of five sets at a cost of £ 5,83,100 FOB, UK at five *per cent* enhanced rate, as compared to previous purchase price of October 2005 and another for supply of 10 sets with identical rate of previous purchase at a cost of £ 10,91,110 FOB, UK.

The Company asked them to supply five sets at the old rates. But MBEL proposed (April 2006) the Company to place order on it for five sets at enhanced rates and to get a discount of five *per cent* which will equate it to the previous purchase order (October 2005) subject to the condition that the Company would amend the purchase order by increasing the quantity to 10 sets within a period of two months. Further, in order to lessen the Company's financial burden for 2006-07 MBEL also proposed (April 2006) that the Company could establish a revolving letter of credit for the value of five sets in 2006-07 and for further five sets in April 2007.

Thus, the MBEL's proposal for placing order for 10 sets at previous rates was not only beneficial on price count but also did it insulate the Company from future price rise and minimise inventory carrying cost due to deferred delivery schedule, as agreed by MBEL. However, the Company placed (July 2006) an order on MBEL for supply of only five sets at a total cost of £ 5,83,100 (Rs. 4.07 crore) excluding freight, insurance and custom duty by April 2007. Consequently, this led to procurement of five sets at a rate which was higher than the previous rate by Rs. 30.40 lakh[11].

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[10] Now Doosan Babcock Energy Limited.

[11] Differential price between October 2005 order (£ 1,06,950) and July 2006 order (£ 1,12,298) for one set comprising of top grinding ring, fill-in grinding ball, bottom grinding ring and grinding ball i.e. £ 5348 x 5 sets x Rs. 85.69/ Rs. 87.25 = Rs. 23 lakh plus custom duty: Rs. 7.40 lakh.

On the basis of another indent (December 2006) for urgent purchase of six ring and ball sets for overhauling the remaining 12 coal mills in 2007-08, the Company again invited (February 2007) quotation for six sets from MBEL. MBEL quoted (February 2007) rate of £ 7,31,598 for six sets which was however, 4.55 *per cent* higher than the order placed in July 2006 for five sets as well as 11.75 *per cent* higher than the rate quoted in April 2006 for 10 sets. On negotiation, MBEL offered discount of 2.5 *per cent* over the quoted rate (£ 7,31,598) and the Company placed (June 2007) another order for six sets at the negotiated cost of £ 7,13,308 (Rs. 6.12 crore) excluding custom duty, freight and insurance, with scheduled delivery by March 2008. This had resulted in procurement of five sets at a higher rate of Rs. 80.47 lakh[12] compared to the rate quoted (April 2006) for 10 sets. Against the aforesaid orders the supply of five sets were received while remaining six sets were awaited (September 2008).

Thus, despite requirement of 10 sets, the Company failed to evaluate the MBEL's proposal for supply of 10 sets at a discount of five *per cent* leading to extra expenditure of Rs. 1.11 crore.

The Government /Management stated (July 2008) that in order to generate competition among MBEL and indigenous manufacturers the Company decided to develop indigenous vendor so that future procurement could be made at lower cost. In order to get local supply, the Company did not place order of 10 sets at a time on MBEL. But the development of vendor was delayed due to some technical reason which necessitated the placement of second order on MBEL albeit at a higher cost.

The reply does not address the fact that when the Company decided (February-May 2006) to place the first order it was aware that supplies from indigenous vendors were not completed, the performance and wearing out cost of the indigenous supplies would be known to the Company only in July/ August 2007 after completion of their life span of 380-408 days and the lead time was two years. However, the Company required the ring and ball sets for overhauling to be carried out during February 2006 to June 2007. Hence, the Company's decision to wait for the development of the indigenous vendors, instead of placing the order on MBEL for supply of 10 sets at a discount, lacked justification.

[12] Differential price between October 2005 order (£ 1,02,925) and June 2007 order (£ 1,17,245) for one set comprising of top grinding ring, bottom grinding ring and grinding ball i.e. £ 14,320 x 5 sets x Rs. 86.30 = Rs. 61.79 lakh plus custom duty: Rs. 18.68 lakh.

West Bengal State Electricity Distribution Company Limited, West Bengal Power Development Corporation Limited & The Durgapur Projects Limited

3.6 Irregular payment of ex-gratia

In violation of the instruction of the State Government, the West Bengal State Electricity Distribution Company Limited, West Bengal Power Development Corporation Limited and The Durgapur Projects Limited irregularly paid Rs. 8.51 crore as *ex-gratia* to their employees.

As per the State Government's instruction (September 2007), *ex-gratia* at Rs. 1,000 per head was payable by the Public Sector Enterprises (PSEs) for the year 2006-07 to the employees who were guided by the Payment of Bonus Act, 1965, but were ineligible to get bonus because their emoluments exceeded the maximum limit of Rs. 3,500 per month as on 31 March of 2007 provided their emoluments did not exceed Rs. 10,000 per month as on that date.

The Board of Directors of West Bengal State Electricity Distribution Company Limited (WBSEDCL), West Bengal Power Development Corporation Limited (WBPDCL) and The Durgapur Projects Limited (DPL) approved (September/ October 2007) the payment of *ex-gratia* at the rate of Rs. 5,000 per head to all regular employees who were on the pay roll of the Company as on 31 March 2007. It was noticed (February/ April 2008) that -

(a) WBSEDCL paid Rs. 2.37 crore at the rate of Rs. 5,000 to its 4,738 employees whose emoluments exceeded the limit prescribed under the Government's directive *i.e.* Rs. 10,000 per month. Further, in violation of the instruction of the State Government, the Company paid *ex-gratia* to 6,765 employees whose emoluments ranged between Rs. 3,500 and Rs. 10,000 per month at the rate of Rs. 5,000 per head instead of Rs. 1,000 leading to irregular payment of *ex-gratia* amounting to Rs. 2.68 crore. This led to irregular payment of *ex-gratia* amounting to Rs. 5.05 crore to 11,503 employees.

Justifying the payment of *ex-gratia* the Management stated (September 2008) that the Government empowered the Company to take decision independently in matters like recruitment, promotion incentive and compensation. The Government endorsed (September 2008) the views of the Management.

The reply is factually incorrect because (i) the empowerment directives (March 2008) had specific condition that the proviso for the empowerment would be withdrawn in the event Company requires any financial support from the Government and (ii) in 2006-07 and 2007-08 the Company received financial support of Rs. 722.09 crore from State Government which negates its claim of operational freedom for fixing incentive, compensation *etc*. Thus, payment of *ex-gratia* contrary to the instruction of the Government lacked justification.

(b) WBPDCL paid (October 2007) *ex-gratia* of Rs. 1.11 crore at the rate of Rs. 5,000 to its 2,222 employees whose emoluments exceeded the limit prescribed under the Government's directive i.e. Rs. 10,000 per month. Further, in violation of the instruction of the State Government, the Company paid *ex-gratia* to 1,578 employees whose emoluments ranged between Rs. 4,446 and Rs. 10,000 per *mensem* at the rate of Rs. 5,000 per head instead of Rs. 1,000 leading to irregular payment of *ex-gratia* amounting to Rs. 63.12 lakh. Thus, payment of *ex-gratia* amounting to Rs. 1.74 crore to employees was irregular.

The Management stated (May 2008) that due to non-receipt of Government order in time the Company paid *ex-gratia* at a uniform rate to all employees without any discrimination of pay structure. The reply is factually incorrect as the Government order was issued (24 September 2007) before the Company decided (28 September 2007) to pay *ex-gratia* in contravention of the order. Further, the Company also failed to initiate recovery measure.

(c) Similarly, DPL paid Rs. 61.35 lakh at the rate of Rs. 5,000 to its 1,227 employees whose emoluments exceeded the limit prescribed under the Government's directive i.e. Rs. 10,000 per month. Further, in violation of the instruction of the State Government, the Company paid *ex-gratia* to 2,784 employees whose emoluments ranged between Rs. 3,500 and Rs. 10,000 per month at the rate of Rs. 5,000 per head instead of Rs. 1,000 leading to irregular payment of *ex-gratia* amounting to Rs. 1.11 crore. This led to irregular payment of *ex-gratia* of Rs. 1.72 crore to employees.

The Management stated (May 2008) that the payment was made taking into the consideration the rate of *ex-gratia* paid by other power utilities of the State Government and also to motivate the employees of the Company. The fact, however, remains that the payment was made in violation of the Government's directives even in those power utilities as discussed above.

Thus, payment of *ex-gratia* amounting to Rs. 8.51 crore to employees of three companies was irregular and inconsistent with the instruction of the Government.

The matter was reported to Government (July 2008); their reply was awaited (September 2008).

The West Dinajpur Spinning Mills Limited

3.7 Under-utilisation of capacity and lack of modernisation

The West Dinajpur Spinning Mills Limited had incurred cumulative losses of Rs. 93.19 crore till March 2008 due to excess manpower, high levels of absenteeism, low productivity, delays in installation of balancing equipment, lack of renovation/ replacement of aging plant and machinery, high raw material cost and excessive interest burden.

Introduction

3.7.1 The West Dinajpur Spinning Mills Limited (Company) was incorporated in August 1975 with the main objectives of manufacturing of all kinds of yarn, fabrics, bleaching, washing, dying, printing, operating textile fibre spinning and weaving and processing mills, as well as manufacturing synthetic and rayon fibres and allied products. The activities of the Company are, at present, restricted to production of cotton yarn from its sole mill at Bogram, Uttar Dinajpur. The mill with capacity of 25,088 spindles is in operation since 1985. The mill produced yarn of mainly coarser counts *i.e.* 60 *per cent* of 11-20 count, 20 *per cent* of 20-30 count and the balance 20 *per cent* of 30-40 count.

Till March 2008, the Government of West Bengal (State Government) had invested Rs. 47.98 crore in the Company towards equity (Rs. 8.89 crore) and loans (Rs. 39.09 crore). The Company was incurring losses since inception, except in two[13] years. It would be seen from the working results (**Annexure 29**) that during 2003-08, the Company's ratio of contribution (sales – direct expenses excluding employee cost) varied from 8.13 to 21.46 *per cent*, which failed to meet even the employee cost. Moreover, the actual sales were only 14.19 to 36.03 *per cent* of break- even sales.

As of March 2008, the provisional accumulated losses of Rs. 93.19 crore exceeded the paid-up capital of Rs. 8.89 crore and the Company’s net worth was negative. Although the Company was a sick industrial company, the Board of Directors (BOD) of the Company had failed to seek approval of the State Government for making reference[14] to the National Company Law Tribunal with a scheme for revival and rehabilitation of the Company.

The reasons for continuous losses were mainly poor production arising from high levels of absenteeism, low productivity, abnormal delays in installation of balancing equipment, lack of renovation/ replacement of aging plant and machineries as well as high raw material costs, excess manpower and huge interest burden as discussed in succeeding paragraphs.

[13] 1978-79 and 1979-80.

[14] Section 424A of the Companies Act 1956, applicable from 1 April 2003.

Audit findings

3.7.2 The operational performance of the Company was evaluated with respect to norms prescribed by the South India Textile Research Association (SITRA) (December 1995).

The targeted *vis-à-vis* actual production, shortfall in production of yarn and the reasons thereof during 2003-08 are given at **Annexure 30**. It was noticed that the Company had fixed the targets for 2003-07 on the higher side without reference to the production achieved in previous years. Further, the Company had reduced the production target over the previous four years by 25 *per cent* in 2007-08, but failed to achieve even that reduced target.

Spindle utilisation and productivity

3.7.3 Spindle utilisation is the main efficiency indicator of a spinning mill. According to SITRA, spindle utilisation of 85 *per cent* or below indicated that the mill was sick. Against this, the Company's spindle utilisation during 2003-08 averaged 65 *per cent* leading to loss of production of 47.38 lakh Kg yarn valuing Rs. 39.88 crore, indicating that the mill was very sick. The main controllable factors for loss of production were low production per spindle shift, abnormal absenteeism and delay in installation of balancing equipment as discussed below.

3.7.4 According to SITRA norms, average production per spindle shift, converted 40 count, should be 88.81 grammes and output per spindle shift of 72 grammes or less revealed a state of sickness. During 2003-08, the Company’s average output of 58.18 grammes per spindle (GPS) was below the average achievable GPS of 61.3. This resulted in loss of production of 2.71 lakh Kg of yarn amounting to Rs. 2.29 crore. Further, production of yarn of mainly coarser counts *i.e.* 60 *per cent* of 11-20 count and 20 *per cent* of 20-30 count led to lower average annual sales per spindle of Rs. 5,641 to Rs. 6,534 that was less than half the textile industry average[15] of Rs. 14,650.

Management stated (June/ August 2008) that it was not possible to achieve the GPS with old machines and chronic absenteeism. Further, the low speed of conventional ring frame machines installed precluded the possibility of achieving GPS of 88.81. The reply itself indicated ineffectiveness and apathy of the Management to implement the production norms to increase production. Further, the Company failed to take effective steps to combat chronic absenteeism and implement a modernisation plan, despite prolonged deficiencies.

3.7.5 Manufacture of yarn is a sequence of five[16] processes. The output of a previous process is the input for the immediately downstream process. To obviate the loss of production due to shortage of inputs from previous processes *i.e.* back-stuff shortage, it is incumbent on the Company to match

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[15] Twenty first Costs, Operational Performance and Yarn Quality study by SITRA (April to July 2007).

[16] Blowing, carding, drawing, speed frame & ring frame.

machines capacities for each process with the preceding and subsequent processes and ensure production planning. Due to back-stuff shortage and shortage of empty bobbins[17], the Company had sustained production loss of 3.81 lakh Kg of yarn valuing Rs. 3.17 crore. Although the Company had identified (June/ September 2004) the need to install balancing equipment including a draw frame machine, a high speed frame machine and two cone winding machines to overcome capacity mismatches, these machines were installed only in March 2006. Further, although the Company needed (February 2002) two high speed cards to avoid loss of production during the time of overhauling of cards, it belatedly installed them only in November 2006. As all the required balancing equipment was not installed, back stuff shortage persisted which adversely affected production.

3.7.6 Although the mill was operational since 1985, the Company proposed a modernisation/ renovation package of Rs. 2.66 crore only in February 2002, enhanced (May 2002) to Rs. 3.05 crore. The Government did not, however, sanction the package without advancing any reason. Instead, it released loans of Rs. 15.59 crore during 2003-08 to meet liabilities towards salaries and wages, cotton cost payable to Cotton Corporation of India Limited (CCI) *etc*. Further, the Company failed to approach GoI for assistance under the Technology Upgradation Fund Scheme 1999 for modernising the mill. Meanwhile, the Company installed (April 2005 - November 2006) only balancing equipment and two high production carding machines with grants from Uttar Banga Unnayan Parishad (Rs. 96 lakh) and Border Area Development programme (Rs. 30.09 1akh). Thus, the Company did not seriously take up the implementation of modernisation programme.

The Management stated (June/ August 2008) that the required level of modernisation could not be taken up due to paucity of fund and inability to generate fund. The fact, however, remains that after May 2002, the Company did not formulate any modernisation plan. The Government also lacked the intent to turnaround the Company and preferred to dole out money for meeting expenses without a viable renovation/ modernisation strategy.

High incidence of raw material cost

3.7.7 The industry average for raw material cost as percentage of sale value was 56 *per cent*, against which the Company's percentage varied from 66 to 78 due to excess wastage and payment of carrying charges to CCI for delays in lifting raw cotton as discussed below.

Three kinds of waste *viz.* soft usable waste, soft saleable waste and hard saleable waste are generated during spinning. The Company had not fixed norms for generation of waste. Further, the Company did not maintain records for soft usable waste. The SITRA norm for generation of saleable waste was 10 *per cent*. From the available records it was seen that the percentage of soft and hard saleable waste generated rose from 11 in 2003-04 to 16 in 2007-08. This waste of 3.03 lakh Kg in excess of SITRA norms resulted in avoidable loss of Rs. 2.38 crore (after adjustment for scrap sale value).

[17] A reel on which the yarn can be wound.

Management stated (June/ August 2008) that excess waste arose from production of coarser counts of yarn and recycling of the soft reusable waste. The reply did not, however, indicate as to action taken to reduce the higher incidence of wastage.

The Company books raw cotton from Cotton Corporation of India (CCI) on payment of five *per cent* advance. CCI holds the cotton in the Godown Storage Facility (GSF) within their mill premises for 60 days. Thereafter, CCI levies carrying charges at 1.35 to 1.45 *per cent* per month till the cotton is lifted. During 2003-07, the Company incurred additional cost of Rs. 94.65 lakh as carrying charges. This indicated that the booking of raw cotton was not related to the production schedule as in four out of five years *i.e.* 2004-08, the Company had lifted more raw cotton than it booked.

Management attributed (June/ August 2008) the payment of carrying charges to inadequate working capital leading to delays in clearing CCI's dues and booking of cotton for lean season to ensure its availability and avoid steep hike in prices. The fact, however, remains that the Company could have avoided payment of carrying charges by proper production planning and fund management.

Excess Manpower

3.7.8 According to SITRA, the norm for employees cost to the value of sales was 10 *per cent* and if it exceeded 15 *per cent*, the mill was sick. For 2003-08, employees cost rose from 29 to 36 *per cent*. According to the Management, the mill required 491 to 569 operatives and 38 to 42 staff for 25,088 spindles in the same period. Yet, two other public sector spinning mills with similar production pattern, but with more spindles had assessed their manpower requirement under the same SITRA norms at an average of 356/ 158 operatives and 42/ 13 staff for spindle capacities of 49,760 and 32,916 respectively.

It would be seen from **Annexure 31** that during 2003-08, the actual average annual strength of operatives (618 to 795) and staff (42 to 48) of the Company exceeded the assessed manpower requirement by 22 *per cent* in 2004-05 to 43 *per cent* in 2005-06 for operatives. This excess manpower resulted in extra expenditure of Rs. 5.25 crore. On the other hand, the Company suffered loss of production of 34.35 lakh Kg of yarn valuing Rs. 29 crore due to abnormal absenteeism by workers.

Moreover, the employment of contract badli workers since 2005-06 had added to the manpower cost without commensurate benefit of improved productivity or higher production. Further, the Company was aware (February 2002) that if it installed two cone winding machines, it could reduce manpower by at least 24 operatives daily. Yet these machines were installed after lapse of three/ four years in August 2005/ March 2006. These indicated that the Company was not serious about limiting manpower cost.

Management stated (June 2008) that abnormal absenteeism was due to primarily rural mindset of the workers, who were not attuned to the culture of

a manufacturing unit. Engagement of badli workers had also not appreciably improved availability of the workers.

The reply itself indicated the Management's apathy to improve the productivity despite the excess manpower. The reply was, however, silent as to action taken to curb the excess manpower cost.

High interest burden

3.7.9 Due to financial crunch arising from poor performance on all counts, the Company was entirely dependent on State Government loans to meet its liabilities. Since inception, the Company had neither liquidated the principal (Rs. 39.09 crore) nor paid interest (Rs. 40.17 crore) which accumulated to Rs. 79.26 crore till March 2008. The Company had not come with a capital restructuring proposal to reduce the interest burden, so far (September 2008).

Non-maintenance of costing records

3.7.10 The Company had to maintain mandatory cost records[18] but it failed to do so. Consequently, the cost of production *vis-à-vis* sale values of yarn of different counts could not be assessed by the management to take timely remedial action.

Management stated (August 2008) that maintenance of cost records was discontinued from June 2006 after the employee maintaining those records left service. But the cost records prior to that period were not available. The reply itself shows that the Management lacked seriousness to maintain the cost records.

In view of the poor performance of the Company due to low productivity, excess manpower coupled with high levels of absenteeism, high raw material costs and huge interest burden, the Management/ Government needs to implement a well thought out renovation and modernisation programme or decide about the closure of the Company.

The matter was reported to the Government in July 2008, their reply was awaited (September 2008).

West Bengal Essential Commodities Supply Corporation Limited

3.8 Loss due to undue favour to an insolvent buyer

West Bengal Essential Commodities Supply Corporation Limited incurred loss of Rs. 5.05 crore on high sea sales of imported crude palm oil to an insolvent buyer without obtaining adequate collateral security.

Gem Refineries (1997) Private Limited (Buyer) *suo-moto* offered (July 2004) to buy 1000-2000 tonnes of imported crude palm oil (CPO) every month on

[18] Under Section 209(1)(d) of the Companies Act 1956 & notification No. GSR 417E dated 28-06-1977.

high seas from West Bengal Essential Commodities Supply Corporation Limited (Company). The offer, inter alia, envisaged that the Company would receive from the Buyer, the value[19] of CPO and service charge of two per cent thereon through post dated cheques (PDCs), to be presented 30 days from the date of lifting of materials. Further, delivery from the warehouse/ tanks at Kolkata port would be made only after receipt of payment so as to retain the Company's control over the CPO till receipt of purchase consideration. Subsequently, the Buyer offered (September 2004/ December 2004/ January 2005) to separately reimburse insurance premia, usance interest on letters of credit (LC) for import and foreign bank charges as well as furnish a bank guarantee (BG) for Rs. 50 lakh.

It was noticed (February 2007) in audit that the Company was aware[20] that the Buyer was a sick industrial company with negative net worth of Rs. 7.13 crore[21] and had defaulted in repayment of cash credit of Rs. 12.82 crore availed from State Bank of India. Yet, the Company opened (August 2004 - April 2005) eight LC for US $ 46.99 lakh[22] to import 11,600 tonnes of CPO from Malaysia. Between September 2004 and April 2005, the Company imported 11,598 tonnes of CPO at an expenditure of Rs. 20.86[23] crore against 48 bills of lading (B/L).

Thereafter, the Company entered (September 2004 - April 2005) into 43 agreements for high sea sales of the imported CPO with the Buyer to realise Rs. 21.27 crore[24]. The agreements, *inter alia*, provided that **(a)** title in the goods would be transferred to the Buyer by endorsing the B/L, and **(b)** sale value was to be paid by the Buyer in Indian rupees at 86 / 90 days from dates of B/L. Despite being aware of the Buyer's financial stringency/ insolvency, the Company accepted (January/ February 2005) security deposit of only Rs 20 lakh from the buyer and extended undue favour to the Buyer by staggering the payment period from 30 days to 86 /90 days.

In deviation of contractual provisions, the Company did not obtain PDCs from the Buyer on transfer of B/L. The Company received (December 2004 – July 2005) 48 cheques[25] from the Buyer for Rs. 15.91 crore bearing dates on which the cheques would have been payable, had PDC been obtained on the date of transfer of B/L (date of B/L *plus* 86 to 90 days). However, on examination of money receipts it was evident that the cheques were actually received at further later dates. The Company also received (September 2005) 22 cheques aggregating Rs. 5.17 crore after 205 to 313 days from the dates of high sea sales agreements i.e. October 2004/ February 2005. These cheques bearing dates in April 2005 (Rs. 4.82 crore) and May 2005 (Rs. 35 lakh) were dishonoured on presentation in September 2005 due to insufficient funds. The

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[19] At high seas landed price at Kolkata.
[20] Audited financial statements for 2002-03 and Statutory Auditors' Report of 28 August 2003.
[21] Including non-existent goodwill of Rs. 1.31 crore reflected in the financial statements.
[22] Payable 90/ 180 days from the bills of lading i.e. December 2004 to July 2005.
[23] Value of CPO - Rs. 20.68 crore, upfront fees & bank charges Rs. 18.28 lakh.
[24] Being Rs. 20.86 crore plus two *per cent* of Rs. 20.68 crore i.e. Rs. 41.36 lakh.
[25] Cleared between December 2004 and September 2005.

Company also failed to file criminal proceedings against the buyer (September 2008).

Thus, the Company's decision of entering into high sea sales agreements with an insolvent private party, extending the period of credit, failure to obtain adequate collateral security and accepting cheques after delays in contravention of the agreements, led to loss of Rs. 5.05 crore[26]. The matter needs investigation to fix responsibility.

The matter was reported to Management / Government (April 2008); their replies were awaited (September 2008).

3.9 Undue favour to an Associate

West Bengal Essential Commodities Supply Corporation Limited incurred loss of Rs. 4.47 crore on financing export of paper board and high sea sales of imported paper board to an Associate without obtaining security to safeguard the Company's interest, failure to monitor recovery of dues and accepting fictitious payment terms.

3.9.1 West Bengal Essential Commodities Supply Corporation Limited (Company) received (January 2004) a *suo-moto* proposal from Raj Import Export Private Limited (Associate) for export of paper board to Bangladesh. Subsequently two agreements were entered (February 2004) into by the Company with the Associates which envisaged that the Company would receive transferable letter of credit (LC) from the foreign buyer against which it would arrange 95 *per cent* packing credit from bank for financing the cost of paper board. It would then endorse the LC to the Associate, who would obtain payment from Bangladeshi buyers. As per the agreements, the Associate would also pay the Company administrative and overhead charges (1.5 *per cent* of amount invested) as well as interest at the rate of 8.5 *per cent* on fund invested. Although the proposal was effectively for financing exports by the Associate, the Company neither evaluated the credentials of the Associate nor did it obtain a credit rating from the Associate's bankers.

The Company obtained two post dated cheques (PDCs) for Rs. 84.28 lakh from the Associates and received (February 2004) two LCs for export of 515 tonnes of paper board to Bangladesh. The Company availed packing credit advance and exported (March - May 2004) 500 tonnes of paper board at a cost of Rs. 86.65 lakh[27]. Against this, it realised (March – July 2004) Rs. 77.18 lakh from the foreign buyers, resulting in non-realisation of Rs. 9.47 lakh. Yet, the Company neither claimed the amount from the Associate nor did it encash the PDCs, leading to loss of Rs. 9.47 lakh.

3.9.2 Meanwhile, the Associate proposed (March 2004) to obtain export orders in its' own name from the foreign buyer for which the Company would

[26] Rs. 21.27 crore less Rs. 15.91 crore for the cost of oil, Rs. 0.11 crore for reimbursement of bank charges and Rs. 0.20 crore for security deposit.

[27] Packing credit – Rs. 84.23 lakh, own fund – Rs. 2.00 lakh, bank charges, interest etc. – Rs. 0.42 lakh.

open, on behalf of the Associate, inland letters of credit in favour of Indian paper manufacturers. The Associate would export the paper board, collect the sale proceeds and repay the Company along with usance interest and service charges against security deposit (March 2004) of Rs. 10 lakh only.

Accordingly, the Company opened (March- August 2004) four[28] LCs for Rs. 5.95 crore instructing the manufacturers to draw all documents in the Associate's name. Between March and November 2004, the Associate lifted paper board for Rs. 5.52 crore against the LCs and repaid (March 2004 – October 2005) Rs. 2.79 crore only, leading to non-recovery of Rs. 2.73 crore.
It was noticed (February 2007) in audit that -

The Company did not retain any security while instructing the manufacturers to draw all documents in the Associate's name, whose investment was limited to only Rs. 10 lakh only.

The Company opened (May 2004) the third LC when Rs. 70.52 lakh was due from the Associate against the first two LCs, while the fourth LC was opened (August 2004) when Rs. 1.69 crore was due from the Associate. Yet, the Company continued to allow the Associate to enjoy the benefit of financing these transactions.

3.9.3 According to another proposal (June 2004), the Company would open a foreign LC for import of 500 tonnes paper board from Indonesia for high seas sale to the Associate. The Company would receive from the Associate the cost of imported paper board, administrative charges and reimbursement of bank expenses. The Associate handed over two PDCs (July 2004) for Rs. 22.16 lakh towards various cost associated with opening of LC which were honoured in July/ October 2004.

The Company opened (June 2004) a LC and imported (August 2004) 504 tonnes paper board from Indonesia at a cost of Rs. 1.87 crore[29]. The Company and the Associate entered (September 2004) into an agreement for high seas sales of the paper board. It was, however, noticed (May 2006) in audit that the high seas sales agreement with the Associate provided that the Associate would make payment to the Company within one month of foreign LC, opened by the Company in favour of the foreign exporter. However, no specific mode of payment was mentioned in the agreement.

As a result, no further payment was received by the Company in regard to above transaction and thus the Company suffered a loss of Rs. 1.65 crore.

Thus, financing export of paper board and high sea sales of imported paper board without obtaining security led to loss of Rs. 4.47 crore[30].

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[28] ILC 73/04 of 18-03-2004 in favour of The West Coast Paper Mills Limited (Rs. 69.50 lakh), ILC 74/04 of 18-03-2004 – Suman Paper & Boards Limited (Rs. 53.80 lakh), ILC 157/04 of 29-05-2004 – Ballarpur Industries Limited (Rupees four crore), ILC 251/04 of 27-08-2004 - The West Coast Paper Mills Limited (Rs. 71.20 lakh).
[29] LC opening charges, interest, bank charges etc. – Rs. 93,580 and material cost paid against LC – Rs. 1.86 crore.
[30] Rs. 9.47 lakh plus Rs. 2.73 crore plus Rs. 1.65 crore.

While admitting the audit observation, the Management stated (October 2008) that the Board of Directors had decided to refer these matters to their legal advisor for suitable action. The reply itself indicates that the lackadaisical attitude of the Company in adopting prudent business practices.

The matter was reported to Government (May 2008); their reply was awaited (September 2008).

3.10 Loss due to high seas sale to buyers without obtaining payment

West Bengal Essential Commodities Supply Corporation Limited incurred loss of Rs. 2.23 crore on high sea sales of imported electronic goods to three inexperienced firms due to transfer of title without obtaining payment.

West Bengal Essential Commodities Supply Corporation Limited (Company) received (January 2004) *suo-moto* proposals from three related[31] parties (Buyers) *viz.* Swagatika Impex Private Limited (SIPL), Sigma Electronics (SE) and General Electronics (GE) of Mumbai, for import of electronic goods from Singapore by the Company for subsequent high seas sales to them. As per the proposals, the Buyers would reimburse the Company all costs towards foreign letters of credit (LCs), administrative charges at three *per cent* of LC value and other financial charges as well as bear all taxes and duties.

Accordingly, the Company opened (January - December 2004) 28 LCs valuing US$ 15.29 lakh in favour of two[32] Singapore exporters for import of electronic goods. The Company imported (June 2004 – August 2005) colour televisions, air conditioners, liquid crystal display monitors *etc*. in many consignments against 25 LCs valuing US$ 13.40 lakh for high seas sale to the Buyers. The remaining three LCs were not executed.

On signing the high seas sale agreements, the Company was to realise Rs. 5.32 crore[33] towards cost, insurance and freight. Yet, the Buyers paid (March 2004 – July 2005) to the Company Rs. 3.09 crore only towards cost, insurance and freight. The Buyers had not paid the balance Rs. 2.23 crore so far (September 2008).

It was noticed (May 2006/ February 2008) in audit that -

- The three buyers were related entities with identical addresses and telephone numbers. GE was a new partnership firm, with two[34] partners, with no previous business activity. Similarly, SE was a sole proprietorship[35] entity, whereas SIPL was incorporated[36] only in November 2002. Yet, the Company had never evaluated their credentials.

[31] Their promoter, partners and proprietor were either the same or related.
[32] Pawa Brothers Trading Pte Limited & S-Tech Electronics.
[33] Excluding interest and administrative charges.
[34] Partners – Shri Prasanta Kumar Patnaik & Kumari Smita Sharad Ghag.
[35] Proprietor – Kum Swagatika Patnaik.
[36] Promoter - Shri Prasanta Kumar Patnaik.

- Two buyers *viz.* GE and SE were considered by their bankers good for extending credit up to Rs. 15 lakh each, while there was no credit rating for SIPL. Yet, the Company had not obtained security by way of payment through letter of credit or financial bank guarantee.

- In deviation of the proposals, the high seas sale agreements did not provide for reimbursement of administrative and financial charges by the Buyers.

- The high seas sale agreements provided for immediate payment. A review of 27 agreements revealed that the Company did not collect the payments from the three buyers on signing the agreements. Instead, it transferred the goods without receiving consideration for reasons not on record. The payments, wherever received, were obtained after delays of 38 to 275 days from the dates of the agreements.

- The Company did not periodically monitor the outstanding dues against earlier consignments while entering into high seas sale agreements for subsequent consignments. Consequently, the Company received full payment from the Buyers for high seas sales against imports under three LCs only, while in respect of five LCs the payments received were less than 40 *per cent*. Yet, the Company took no action for recovery of the dues.

Thus, transfer of title in the goods to inexperienced firms without obtaining payment led to loss of Rs. 2.23 crore to the Company.

Admitting the fact that there was delay in taking actions, the Management stated (October 2008) that the BoD had decided to take legal action and referred the matter to its legal advisor. The reply indicates that after these transactions the Management did not take prompt corrective action. The matter needs investigation at appropriate level.

The matter was reported to the Government (May 2008); their replies had not been received (September 2008).

3.11 Loss due to munificence to a fraudulent Dealer

West Bengal Essential Commodities Supply Corporation Limited failed to recover Rs. 68.52 lakh advanced in excess to an unknown dealer for purchase of non-levy sugar.

West Bengal Essential Commodities Supply Corporation Limited (Company) procures non-levy sugar from Maharashtra sugar mills, for sale through the public distribution system. The Company received (6 October 2004) an unsolicited offer from Super Commercial Company[37], Nagpur (Dealer) for supply of non-levy sugar at a price lower than that being paid by the Company. According to the offer, the Company would release an advance of 50 *per cent* with the balance to be paid by telegraphic transfer/ demand draft

[37] Represented by Shri Praveen K. Ninawe, Chief Executive Officer.

against facsimile copy of lorry/ railway receipts. The Company proposed (14 October 2004) to pay the 50 *per cent* advance directly to the sugar mills from which 2,300 tonnes of sugar would be arranged at Rs. 16,200 *per* tonne for delivery at Kolkata. The balance would be paid by the Company to the Dealer on receipt of clear unqualified railway receipts.

The Dealer, in deviation of the offer, sought (15 October 2004) an advance of Rs. 45.36 lakh himself and requested the Company to pay advances aggregating Rs. 1.17 crore (representing 40 *per cent* of the amount payable) to four[38] co-operative sugar mills. The Company instead released (28 October 2004) an advance of rupees two crore directly to the Dealer, based on the requisition of the Manager (Sugar) and approval of the then Managing Director. The reasons for payment of excess advance to the Dealer instead of to the sugar mills were not on record.

The Dealer supplied (November 2004) 811.60 tonnes of sugar valuing Rs. 1.31 crore from one sugar mill and thereafter, failed to supply the balance quantity. The Company sought (March/ June 2005) refund of the balance advance (Rs. 68.52 lakh). Ultimately, the Company obtained (July 2005) two[39] post dated cheques (PDCs) for Rs. 68.52 lakh from the Dealer. On presentation, both cheques were dishonoured due to insufficient fund. The Dealer was absconding thereafter and Rs. 68.52 lakh were not recovered.

It was noticed (February 2007/ February 2008) in audit that the Company –

- had neither evaluated the credentials of the Dealer nor obtained bank guarantee or other security before release of advance;
- had arbitrarily released rupees two crore to the Dealer which was excess of 50 *per cent* of the estimated contractual value (Rs. 1.86 crore[40]);
- failed to initiate criminal proceedings for dishonour of cheques against the Dealer under Section 138 of the Negotiable Instruments Act, 1881. Instead, it filed (December 2005) criminal proceedings for conspiracy, breach of trust, cheating and dishonestly inducing delivery of property.

Thus, failure of the Company to verify the credentials of the unknown dealer before placing order for supply of sugar coupled with releasing advance arbitrarily to the Dealer instead of directly to the sugar mills, led to siphoning of the Company's funds of Rs. 68.52 lakh.

The matter was reported to Government (May 2008); their reply was awaited (September 2008).

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[38] The Sanjeevani Sahakari Sakhar Karkhana Limited, Shri Ganesh Sahakari Sakhar Karkhana Limited, The Kopargaon Sahakari Sakhar Karhana Limited & Ashokagar Sahakari Sakhar Karhana Limited, all located in Ahmednagar district, Maharashtra.

[39] Nos. 359788 & 359789 dated 22.08.2005 and 22.09.2005 for Rs. 30 lakh and Rs. 38.52 lakh respectively, both drawn on Akola Urban Co-operative Bank Limited, Nagpur.

[40] 2,300 x Rs. 16,200.

West Bengal Electronics Industry Development Corporation Limited

3.12 Loss due to investment in an unviable joint sector company

The Company provided loan of Rs. 11.77 crore to a loss incurring joint sector company even after the exit of private promoters which rendered the loan doubtful of recovery. Further, the Company failed to initiate recovery action against the private sector promoter for Rs. 1.50 crore.

West Bengal Electronics Industry Development Corporation Limited (Company) promoted (August 1985) Webel Communication Industries Limited (Webcom) as a joint sector company[41] with a private party viz. Communication Consultant and Service Private Limited (CCSPL) to manufacture EPABX and EPBT[42]. Subsequently, CCSPL decided (May 1997) to opt out of Webcom as it was suffering loss from 1996-97 and it had no prospect of revival unless it was restructured. CCSPL also suggested to close down Webcom. Ignoring the suggestion of CCSPL, the Company took over (June 1997) the management of Webcom which stopped production with effect from May 2003 due to unremunerative prices of EPBT, technological obsolescence and lack of funds for upgradation and re-structuring.

It was noticed that since takeover of management, the Company did not chalk out any revival plan. The Statutory Auditors' of Webcom persistently commented (September 2003-September 2007) on its inability to remain as going concern since its net worth had been completely eroded (the accumulated loss stood at Rs. 14.78 crore while the book value of its share was (-) Rs. 46.03 as on 31 March 2007). Despite this precarious financial condition, the Company continued to provide (upto March 2007) loans (Rs. 11.77 crore) to Webcom to meet the salary and expenditure which lacked justification.

Earlier, for execution of the project Webcom had borrowed term loans from financial institutions (FIs) and arranged overdraft facilities from Indian Overseas Bank (IOB), jointly and severally guaranteed by the Company and CCSPL. On Webcom's failure to repay principal and interest thereon aggregating Rs. 4.84 crore, the FIs filed a suit at Debt Recovery Tribunal against the promoters. Ultimately, the FIs settled the amount at Rs. 1.82 crore of which Rs. 1.66 crore was paid (August 2003) by the Company and Rs. 16 lakh by CCSPL. On the other hand to liquidate the outstanding balance in overdraft account, IOB encashed (February 2003) the Company's fixed deposit of Rs. 1.50 crore. Though the CCSPL was liable to honour 50 *per cent* of FIs and IOB's claim, the Company did not take any legal action against the promoters of CCSPL to recover the claim of Rs. 1.50 crore[43].

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[41] Shares held by: Company-29.64 *per cent*, CCSPL-34.13 *per cent,* Public-36.23 *per cent.*

[42] EPABX: Electronic private automatic branch exchange, EPBT: Electronic Push Button Telephone.

[43] (Rs. 1.82 crore + Rs. 1.50 crore) /2 – Rs. 0.16 crore=Rs. 1.50 crore.

Thus, decision to continue with an unviable joint sector company and extending loan assistance to it and also non-initiation of recovery action against CCSPL led to loss of Rs. 13.27[44] crore.

The Management stated (May 2008) that as there were precedents in the State that employees of large number of non-working public sector units were paid from the State exchequer, the Company had to provide financial assistance to the unit from its own resources so that industrial relations did not suffer. The reply did not address the facts that **(i)** Webcom was not a public sector unit, and **(ii)** extending loan support to unviable Webcom without making any plan to revive or otherwise to close down lacked justification.

The matter was reported to Government (March 2008); their replies were awaited (September 2008).

National Iron & Steel Company (1984) Limited

3.13 Payment of idle salaries and wages

Although directed by the Government of West Bengal to offer all employees an early retirement scheme, National Iron & Steel Company (1984) Limited failed to do so and consequently, paid idle salaries and wages of Rs. 3.63 crore to 160 employees till March 2008.

A reference is invited to Paragraph 4.10 of the Audit Report (Commercial) 2003-04, West Bengal regarding unfruitful investment of Rs. 11.76 crore by National Iron & Steel Company (1984) Limited (Company) on a bar mill at its factory at Belur. Against production capacity of 30,000 tonnes annually, actual production fell from 2,837 tonnes in 2001-02 to 289 tonnes in 2005-06. The Company stopped production since 13 September 2005. The Board of Directors of the Company had also directed (June 2006) the Managing Director not to resume production without firm order.

In September 2005, the Company had 326 permanent employees, 11 contractual temporary employees, three part-time advisors/ experts and a Managing Director on contract basis as well as 38 contractor's labourers. Although the Company was non-operational since September 2005, it had not dispensed with the services of these 11 temporary employees, 38 contractor's labourers and three advisors/ experts from October 2005. The Government of West Bengal (Government) had failed (September 2003) to induct a strategic partner in the Company. Consequently, the Government directed (December 2005) the Company to offer an Early Retirement Scheme (ERS) to all employees on its rolls including regular, casual and contract employees since its operations had stopped. The expenditure on ERS was to be mainly funded out of grant from DFID[45]. But, the Company implemented the ERS with effect from 31 January 2006, for only 215 employees at an expenditure of

[44] Rs. 11.77 crore + Rs. 1.50 crore=Rs. 13.27 crore.
[45] Department for International Development, Government of United Kingdom.

Rs. 8.22 crore. The reasons for not giving ERS to the remaining employees were not on record.

Between October 2005/ February 2006 and March 2008, the Company had incurred expenditure of Rs. 3.63 crore towards salaries and wages of these employees including the contract workers and three experts, who had remained idle since production was stopped in September 2005. The idle wage cost was met out of Government loan. Further, while Steel Authority of India Limited (SAIL) was willing to take over the Company, it had, *inter alia*, desired (February 2006/ November 2007) another ERS to separate the remaining employees.

Thus, despite being aware that the revival was not possible, the Company's decision not to terminate the services of temporary/ contractual employees from October 2005 and failure to effect ERS for all employees in contravention of Government directives led to payment of idle salaries and wages of Rs. 3.63 crore. Besides, the continuation of the employees in the Company had also put an impediment in taking over the Company by SAIL.

The Government stated (September 2008) that as the ERS was voluntary in nature, 215 out of 326 employees accepted the offer. The fate of the remaining employees would be decided at the time of the final agreement with SAIL. The reply is not in consonant with the facts as in other non-working Government companies, Government/ Management ensured that all employees were brought within the ambit of ERS, but in the instant case the Government/ Management failed to enforce the ERS on all employees of the Company which led to payment of idle wages of Rs. 3.63 crore upto March 2008 which would continue in future.

West Bengal Fisheries Corporation Limited

3.14 Extra expenditure on construction of jetty at Harwood Point

With a view to reduce cost of constructing a jetty at Harwood Point, the Company constructed an anchored diaphragm wall structure instead of going for in-situ bored piles and thereby incurred extra expenditure of Rs. 1.63 crore. Moreover, it also incurred an infructuous expenditure of Rs. 82 lakh on lower jetty due to overlooking the duration of low tide.

West Bengal Fisheries Corporation Limited (Company) proposed (1999) to construct a minor fishing harbour at Harwood Point with assistance under the centrally-sponsored scheme[46] on fishing harbour facilities at major and minor ports. The scheme, *inter alia*, required the submission of detailed proposals based on necessary engineering and economic investigations, accompanied by detailed designs, technical drawings, time schedule and realistic cost estimates based on latest schedule of rates. The Company discussed (July 1999) with

[46] Government of India, Ministry of Agriculture, Department of Animal Husbandry & Dairying.

CICEF[47] the proposal including construction of jetty with in-situ bored piles. CICEF suggested the Company to construct the jetty with anchored diaphragm wall structure as the construction would be economical and required minimal time. Thereafter, the Company submitted (March 2000) the detailed project report (DPR) to the Government of India (GOI) through the State Government. The Company had not, however, undertaken a detailed soil investigation before submission of the DPR and the tentative design of structures was based on sample soil investigations. Moreover, the Company had never undertaken a comparative cost benefit analysis of anchored diaphragm wall structure *vis-à-vis* in-situ bored piles. GOI approved (March 2001) construction of the minor fishing harbour at an estimated cost of Rs. 13.50 crore[48], which was revised (March 2006) to Rs. 24.69 crore[49] with the cost being equally shared by GOI and the State Government.

The DPR envisaged (March 2000) among other features, construction of a twin level jetty of 210 metres with anchored diaphragm wall structure at an estimated cost of Rs. 3.31 crore, to facilitate usage at all tide levels. The construction of jetty was awarded (March 2002/ July 2003) to BBJ[50] which took up the work from November 2003. After detailed soil investigation was taken up (November 2003), the diaphragm wall and other structures had to be redesigned for the prevailing soil conditions. Consequently, the cost of the jetty rose from Rs. 3.31 crore to Rs. 5.65 crore. The work was completed in August 2005. It was however, noticed that the Company had not considered duration of low tide when the lower jetty was available for berthing of vessel. Against the requirement of six hours for landing, the lower jetty was available for one hour only. Thus, construction of lower jetty at a cost of Rs. 82 lakh proved infructuous.

The local fishermen also felt (December 2005) that due to large tidal variation, the twin tiers were of limited use. To fulfill the objective of ensuring usage at all tide levels, the construction of an intermediate tier alongside the twin tiers was felt necessary. Accordingly, the Company awarded (May 2006) two contractors[51], an order for construction of a 50 metre intermediate tier jetty on in-situ cast bored piles at a cost of Rs. 91.15 lakh.

It was noticed in audit that the construction of the original twin level jetty with bored pile foundation would have cost Rs. 4.02 crore[52] to the Company. But it actually incurred Rs. 5.65 crore for construction of the anchored diaphragm wall structure. Thus, due to adoption of a new design without detailed soil investigation and comparative study of cost the Company incurred additional expenditure of Rs. 1.63 crore in construction of the twin level jetty.

The Government/ Management stated (August 2008) that the design of diaphragm wall structure jetty, first time adopted in the state, was finalised by

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[47] Central Institute of Coastal Engineering for Fishery at Bangalore, set up in January 1968.
[48] Twin-jetty : Rs. 3.31 crore, dredging : Rs. 6.46 crore, others: Rs. 3.73 crore.
[49] Original twin-jetty : Rs. 5.69 crore, intermediate jetty : Rs. 91.43 lakh, dredging : Rs. 13.88 crore, others : Rs. 4.21 crore.
[50] The Braithwaite Burn & Jessop Construction Company Limited, a Central PSU.
[51] S.S. Civil Construction Limited and A.K. Construction Private Limited.
[52] Includes cost of two approach jetties (Rs. 35.14 lakh) and revetment of 200 metres (Rs. 18.62 lakh).

CICEF and approved by GOI. Hence, the Company had no scope to undertake any comparative cost analysis between diaphragm wall and bored piled structure. They further added that diaphragm structure was best suited as there was restriction of dredging on the opposite side of the jetty. Further, construction of jetty on bored piled structure would jeopardise the modular concept of the harbour due to loss of land occurred for revetment of shore line beside additional cost of approach jetties and revetment.

The reply did not address the facts that **(a)** despite having past experience in constructing functionally suitably jetties for all tidal condition with economical design of bored pile structure, the Company adopted a new design without conducting detailed soil investigation and comparative cost analysis of two types of structures before submitting the proposal to GOI. This led to extra expenditure of Rs. 1.63 crore. **(b)** The construction of an intermediate tier with bored pile structure showed that the restriction on dredging on the opposite side of jetty was not a barrier. This type of piled structure jetty for upper and lower level could be constructed along the alignment of the intermediate jetty without disturbing the modular concept of the harbour, and **(c)** the extra expenditure was worked out after adding the cost of revetment and approach jetties.

3.15 Loss on construction of a bridge without Government approval or work order

West Bengal Fisheries Corporation Limited incurred loss of Rs. 99.49 lakh on construction of a bridge over the Bagda river at Pawsai Bazar-Sakunia in Purba Midnapur, without the approval or sanction of the Government and without work order.

West Bengal Fisheries Corporation Limited (Company) undertakes civil infrastructure works on behalf of the Fisheries and other departments of the Government of West Bengal (GOWB), but does not undertake any infrastructure work on its own. With a view to construct a bridge over the Bagda river at Pawasai Bazar – Sakunia[53] in Purba Midnapur, the Company prepared (March 1997) a project report through National Building Construction Corporation Limited (NBCC). The Company submitted (April 1997) the report to the Fisheries department, GOWB for sanction of fund to construct the bridge at an estimated cost of Rs. 1.08 crore.

Thereafter, without Government's approval or work order, the Company's Chairman[54] approved (October 1999) invitation of tenders in November 1999 from eligible contractors and directed (December 1999) that the Company would meet the expenditure from its own fund. The Company placed (December 1999) order for construction of the bridge at Rs. 81 lakh on the lowest bidder, C.M. Constructions (Contractor). Subsequently, the order was enhanced (August 2001) by the Company's Board of Directors to rupees one crore. The Contractor completed construction of the bridge in August 2003 at

[53] Near Contai.
[54] Also the Minister in Charge of Fisheries department, representing Mugberia constituency, near Contai.

a cost of Rs. 99.49 lakh and the Company released the Contractor's entire dues in October 2004, without sanction of fund by GOWB for construction of the bridge. Consequently, the Company suffered loss of Rs. 99.49 lakh due to non-recovery of the expenditure on construction of the bridge even after lapse of more than four years.

While accepting the facts that the Company did not undertake any infrastructural work of the Fisheries department on its own, the Management stated (March/ May 2008) that the work was taken up with the Chairman's approval and the Company had been requesting the Fisheries department for placement of fund. The Company neither had any ulterior motive nor any stake for construction of bridge on its own. The fact, however, remains that the *suo-moto* construction of a bridge, at the instance of the Company's Chairman without any work order, rendered recovery of expenditure of Rs. 99.49 lakh unrealisable thereby leading to loss to that extent.

The matter was reported to Government (April 2008); their reply was awaited (September 2008).

Statutory Corporations

South Bengal State Transport Corporation

3.16 Extra expenditure on purchase of ready-built buses

Despite incurring extra expenditure of Rs. 1.37 crore on purchase of ready-built buses, South Bengal State Transport Corporation failed to reap the benefit of putting them on road early due to delays in delivery.

South Bengal State Transport Corporation (Corporation) was allowed (November 2007) by the State Government to purchase 110 buses (cost: Rs. 18.70 crore) with a loan of Rs. 17.77 crore (95 *per cent* of cost) from West Bengal State Co-operative Bank and balance five *per cent* from Corporation's own fund. Further, to facilitate early placement of buses on road the Corporation was to purchase 55 ready-built buses from the manufacturers while the remaining 55 buses would be built on the chassis to be purchased from manufacturers.

Accordingly, the Corporation negotiated for purchase of 54-seater ready-built buses and placed (November 2007) orders on three manufacturers *viz.* Tata Motors Limited (TML) for 12 buses at Rs. 16.20 lakh each, Ashok Leyland Limited (ALL) for 28 buses at Rs. 16.30 lakh each and Eicher Motors Limited (EML) for 15 buses at Rs. 15.80 lakh each. The ready-built buses were to be delivered within seven to 10 weeks from the date of receipt of purchase orders. Simultaneously, two orders for delivery of 55 chassis within five weeks were

also placed[55] on TML (30 chassis) and ALL (25 chassis). With a view to build 55-seater semi-deluxe bus bodies on these chassis, the Corporation placed (November – December 2007) orders on 11 fabricators for fabrication of bus bodies at the rate of Rs. 5.45 lakh per bus body. Thus, the aggregate cost including chassis for fabricated buses worked out to Rs. 13.55 lakh and Rs. 13.68 lakh per bus respectively. The complete buses were to be delivered within another six weeks *i.e.* a maximum of 11 weeks including receipt of chassis.

It was noticed (February 2008) that –

- The Corporation had never analysed the additional financial benefit to be derived by early placement of buses on road in comparison to the additional cost. During 2006-07, the contribution[56] per bus per day was only Rs. 145. Even if the ready-built buses were put on road within the minimum delivery period of seven weeks, as compared to maximum of 11 weeks for fabricated buses, the additional contribution per bus would be a paltry Rs. 4,060 as compared to the additional cost of Rs. 2.65 lakh (TML), Rs. 2.62 lakh (ALL) and Rs. 2.12 lakh (EML) per bus. This resulted in additional cost of Rs. 1.37 crore[57] on purchase of 55 ready-built buses.

- Against the delivery schedule of eight to 12 weeks for ready-built buses offered by the manufacturers, the Corporation compressed the delivery schedule at seven to 10 weeks without assessing their ability to deliver.

- All three manufacturers slipped up on the delivery schedule and delivered (February – October 2008) 55 ready-built buses after average delay of 131 days. In the meantime, 53[58] chassis were received (November 2007 – May 2008) and bus bodies constructed thereon within stipulated time frame.

Thus, due to purchase of 55 ready–built buses at a higher cost without evaluation of financial benefit, the Corporation incurred additional expenditure of Rs. 1.37 crore.

The Government/ Management stated (November 2008) that the cost of ready-built buses were higher due to improved design, finish and passenger comfort. They also stated that local fabricators had limited capacity to deliver the fabricated buses early. The reply does not address the fact that the justification for purchase of ready built buses was to ensure their early placement on road. The average delay of 131 days in delivery of complete buses by the manufacturers defeated the possibility of early placement *vis-à-*

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[55] At Rs. 8.10 lakh per chassis on TML and Rs. 8.23 lakh per chassis on ALL.
[56] Total traffic revenue less variable expenditure like diesel, consumables etc. divided by product of average number of buses on road for the year and number of days in the year.
[57] TML – Rs. (16.20-13.55) lakh x 12, ALL – Rs. (16.30-13.68) lakh x 28,
EML - Rs. (15.80-13.68) lakh x 15.
[58] TML – 28 out of 30; ALL – 25 out 25.

vis the fabricated buses. Moreover, the local fabricators had three to four times more capacity than the order placed on them by the Corporation.

North Bengal State Transport Corporation

3.17 Loss due to purchase of oil from retail outlets

The Corporation suffered loss of Rs. 1.03 crore due to local procurement of oil from retail outlets at higher rates as well as its failure to avail cash discount offered by Indian Oil Corporation on direct purchase and to get the reimbursement of demand draft commission from IOC.

3.17.1 North Bengal State Transport Corporation (Corporation) operates its bus services through 23 depots under the control of four divisions. In terms of the Memorandum of Agreement (MOA) entered (June 2004/ June 2007) with Indian Oil Corporation (IOC), all the divisions of the Corporation, on the basis of the indents received from depots, directly procure the entire requirement of High Speed Diesel (HSD) from IOC against advance payment and distribute the same to depots according to their requirements. As per the MOA, the Corporation was entitled to a cash discount ranging from Rs. 100 per kilolitre (KL) to Rs. 380 per KL depending upon the quantity lifted per month on centralized purchase. Thus, proper procurement planning was pre-requisite to ensure procurement at concessional rates.

Despite the existing arrangement with IOC for procurement of entire quantity of HSD, all the 23 depots resorted to (July 2004 to October 2007) procure HSD at higher prices from the retail outlets locally in cash on the ground that there was no stock of HSD in depots. It was observed that the procurement of HSD from retail outsets constituted 20 to 38 *per cent* of the total procurement. This indicated that bulk procurement was effected without proper assessment of HSD requirement of depots which resulted in procurement from retail outlets at an extra expenditure of Rs. 57.94 lakh towards higher rates during the same period. Further, due to local purchases the Corporation failed to avail higher discount slabs during the same period to the extent of Rs. 29.75 lakh.

3.17.2 According to the terms of the MOA (June 2004) payment towards procurement of HSD directly from IOC was to be effected by the Corporation through demand draft (DD) and DD commission was to be reimbursed by IOC. During July 2004 to June 2007 DDs aggregating Rs. 63.63 crore were issued in favour of IOC against which commission of Rs. 15.74 lakh was accrued to the Corporation. However, the IOC had not reimbursed the commission nor did the Corporation take up the matter with IOC so far (September 2008). Failure to get the reimbursement of DD commission from IOC resulted in further loss of Rs. 15.74 lakh.

While admitting the facts the Corporation stated (March 2008) that it had to adopt local purchases instead of centralised procurement of oil due to acute

financial crisis on account of deterioration in revenue earnings arising from sudden fall in number of buses on-road.

The reply is factually incorrect because **(a)** the State Government enhanced the subsidy from Rs. 40 crore in 2003-04 to Rs. 84.90 crore in 2005-06 to compensate the Corporation for its declining revenue earning capacity, and **(b)** against the average monthly income of Rs. 9.53 crore during 2004-05 to 2006-07 the Corporation on an average incurred monthly operational expenditure of Rs. 7.88 crore during the same period indicating adequate liquidity for centralised purchase of oil. The reply was, however, silent on the failure to obtain reimbursement of DD Commission from IOC.

The Corporation needs to ensure the procurement at economic price.

The matter was reported to Government (March 2008); their reply was awaited (September 2008).

Calcutta State Transport Corporation

3.18 Loss of revenue due to undue favour extended to an advertising firm

Failure to enforce the provisions of the contract on a defaulting advertising firm resulted in loss of revenue of Rs. 61.72 lakh.

With a view to engaging firms as the sole concessionaire for advertisement rights on bus bodies of 11 depots for two years, Calcutta State Transport Corporation (Corporation) invited (March 2005) open tender. Of the four offers received (March 2005), the offer of Dmas Communication (firm), New Delhi at an annual rent of Rs. 8,640 per bus was found to be the highest. Accordingly, the Corporation entered (April 2005) into an agreement with the firm at the annual rent of Rs. 60.48 lakh for 700 buses for two years with effect from May 2005.

In terms of the agreement the firm was to deposit (a) Rs. 30.24 lakh as security deposit in the form of bank guarantee, (b) Rs. 15.12 lakh towards quarterly rent in advance within seven days of the beginning of every quarter, and (c) to pay penal interest at the rate of two per cent per month, incase of default in advance payment. The agreement also stipulated that the quarterly rent for advertisement would be paid on pro-rata basis if the advertisable buses provided to the firm were above or below 700 buses. In case of failure of the firm to perform as well as to pay in terms of the agreement, the Corporation reserved the right to terminate the contract.

It was observed in audit that the Corporation, without obtaining any security deposit, allowed the firm to commence the work from May 2005. During May 2005 to January 2007, the firm completed advertisements on 324 to 912 buses per quarter. Despite having provision towards pro-rata payment of quarterly rent in the agreement, the firm paid (April 2005 – April 2007) only Rs. 27.98 lakh against the total amount dues of Rs. 89.70 lakh. Though the

firm repeatedly failed to pay the quarterly rent in advance, the Corporation neither terminated the contract nor did it claim penal interest in terms of the agreement. Reasons for such failure were not on record.

Ultimately, the firm abandoned the work in February 2007 since the Corporation did not allow its men to work in the depot. However, there was nothing on the record to indicate whether the firm defaced the advertisements on the buses in terms of the agreement.

Thus, negligence of the management to obtain security deposit as well as its failure to enforce the provisions of the agreement resulted in a loss of revenue of Rs. 61.72 lakh and consequent undue benefit to the firm to that extent. Besides, the Corporation failed to even claim the penal interest of Rs. 14.81 lakh accrued on defaulted quarterly rent from the firm.

While accepting the fact the Management stated (September 2008) that action had since been taken to safeguard the interest of the Corporation in future contract for advertisement. The reply was however silent as to why no action was taken to fix responsibility on erring officials.

The matter was reported to Government (March 2008); their reply was awaited (September 2008).

3.19 Follow-up action on Audit Reports

Outstanding departmental replies on paragraphs appeared in the Audit Reports

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

Though the Audit Reports for the years 1998-99, 1999-2000, 2000-01, 2002-03, 2003-04, 2004-05, 2005-06 and 2006-07 were presented to the State Legislature in July 2000, July 2001, March 2002, August 2004, August 2005, July 2006, March 2007 and March 2008 respectively, 17 departments, whose activities were commented upon did not submit their explanatory notes on 56 out of 204 paragraphs/ reviews as of September 2008, as indicated in **Annexure 32.** It would be seen from the annexure that the departments largely responsible for non-submission of explanatory notes were Commerce and Industries, Public Enterprises, Power, Finance and Transport. Government did not respond to even paragraphs / reviews highlighting

important issues like misappropriation, fraud, system failure, mismanagement, non-adherence to extant provisions, *etc*.

Outstanding action taken notes on the Reports of the Committee of Public Undertakings (COPU)

Reports of the COPU presented to the Legislature contain recommendations and observations on which administrative departments are required to submit their Action Taken Notes (ATNs) within six weeks from the date of receipt of COPU recommendations. Even after the lapse of two to 111 months, ten departments did not furnish the ATNs on 77 recommendations relating to 16 COPU Reports presented (June 1999 - July 2008) to the State Legislature (**Annexure 33**).

3.20 Response to the Inspection reports, draft paragraphs and reviews

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

The Inspection Reports issued up to March 2008 pertaining to 40 PSUs disclosed that 244 paragraphs relating to 113 IRs remained outstanding at the end of September 2008, of which 77 IRs containing 144 paragraphs had not been replied to, though more than two years had elapsed. Even the initial replies were not received in respect of 100 paragraphs of 26 PSUs. The department-wise break up of IRs and audit observations as of September 2008 is given in **Annexure 34.** In order to expedite settlement of the outstanding paragraphs, Audit Committees were constituted in 16 out of 21 departments. These committees settled 110 paragraphs in 37 meetings during 1997-2008.

Similarly, the draft paragraphs and performance reviews on the working of PSUs are forwarded to the Principal Secretary/ Secretary of the administrative department concerned demi-officially seeking confirmation of the facts and figures and their comments thereon within a period of six weeks. It was, however, noticed the 12 draft paragraphs and two draft performance audit reviews forwarded to various departments during March to July 2008, as detailed in **Annexure 35** had not been replied so far (September 2008).

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

KOLKATA **(ARIJIT GANGULY)**
The **Principal Accountant General (Audit)**
West Bengal

Countersigned

NEW DELHI **(VINOD RAI)**
The **Comptroller and Auditor General of India**