CHAPTER IV

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

Government companies

WEST BENGAL HOUSING INFRASTRUCTURE DEVELOPMENT CORPORATION LIMITED

4.1 Extra expenditure

The Company incurred extra expenditure of Rs 14.16 crore on land development work at Rajarhat New Town project due to lack of planning, and acceptance of higher rates in disregard to technical specifications.

Acceptance of higher rates for land development work resulted in an extra expenditure of Rs 14.16 crore.

West Bengal Housing Infrastructure Development Corporation Limited (Company) invited (July 1999) Ircon International Limited (IRCON) to submit proposal for land development work of new town project at Rajarhat without conducting detailed survey, preparing contour map of the area and determining existing pre-work ground level. IRCON submitted (August 99) their offer of land development work in 150 hectares on turn-key basis. The Company decided (October 1999) that work of earth filling would be executed by mechanical means and Public Works (Roads) schedule of rates (SOR) would primarily be followed for this purpose. The Company awarded (November 1999) the work of earth filling and construction of roads to Water Bound Macadam level over 150 hectare to IRCON at a negotiated cost of Rs 28.65 crore which was subsequently revised (February 2001) to Rs 45.72 crore due to change in scope of work.

Scrutiny of records revealed the following :

(a) It was observed that the rates of PW (Roads) S.O.R. – 1998-99 were higher than the rates of National Highway SOR[⊗] – 1999-2000 (effective from 1 April 1999) for items like stripping of top soil and disposal thereof and earth work in excavation by mechanical means. Adoption of NH-SOR would have been appropriate since the rates prescribed for mechanised system of work were compatible with the system followed by the Company whereas PW (Roads) SOR rates were for manual work. The reasons for adopting higher rates of PW (Roads) – 1998-99 SOR were not recorded.

(b) For stripping of top 200 mm soil and disposal thereof within one kilometer, the Company adopted the rate of Rs 15.20 per square meter by considering hire charges of dozer and carriage as per rates of PW (Roads)

[⊗] Prepared by Public Works (Roads) Department, National Highway Wing, Government of West Bengal

SOR 1998-99 while the rate for the same work as per NH-SOR – 1999-2000 came to be Rs 10.40 per square meter. Consequently, the Company incurred an extra expenditure of Rs 72.30 lakh for the work executed in an area of 15.06 lakh square meter.

The Government/ management stated (April 2003) that rate of NH-SOR was not applicable since the rate was arrived at considering the hire charges of crawler tractor instead of dozer used by the Company for this work. The contention was not tenable as NH-SOR rate was based on dozer charges.

(c) The Company accepted a rate of Rs 80 per cubic meter for excavation of earth from borrow pits and disposal thereof in filling area up to one kilometer by mechanical means based on rates of PW (Roads) SOR – 1998-99. However, the referred SOR did not provide any rate for mechanical means and the adopted rate was applicable for 'petty emergent works' only. Against this, the rates for these works as per NHSOR – 1999-2000 was Rs 31.60 per cubic meter. Thus, by adopting higher rate in disregard to the means of work, the Company extended an undue benefit of Rs 12.17 crore to IRCON for excavation and carriage of 25.15 lakh cubic meter of earth.

The Government/ management stated (April 2003) that the rate of Rs 80 per cubic meter was justifiable as the work involved deployment of excess machinery, cost of haul road, de-watering etc. The reply was not tenable as the Company paid separately for de-watering and construction of haul road but did not consider requirement of excess machinery for the work while analysing (October 1999) the rates.

(d) After commencement of work in January 2000, a Committee of Board of Directors while evaluating the progress of work and original estimate, observed (February 2001) that due to non completion of planning the initial estimate was not proper. The Committee also modified certain scope of the work *viz.* restriction of top soil stripping in green verges water bodies and similar areas; non-requirement of compaction[∞] of earth filling to achieve 90 *per cent* proctor density in the green verges and top soil up to a depth of 0.65 metre except spreading and rolling[κ] as the foundation level of all the buildings would be below that level and to avoid box cutting of roads in the filled up land.

Scrutiny revealed that during the process of revision of scope of the work, IRCON had already executed (up to June 2001) top soil stripping in the green verges areas of 10.54 hectare (Rs 16.02 lakh), earth work in box cutting of the roads in the area already filled up at a higher level (Rs 17.68 lakh) and 6.37 lakh cubic meter of earth filling in top 0.65 metre was compacted at 90 *per cent* proctor density instead of simple spreading and rolling (Rs 92.63 lakh) at an expenditure of Rs 1.27 crore.

The Government/ management stated (April 2003) that to reduce the project cost the Company restricted certain scope of work so that the project could be

∞ Rate of compaction: Rs. 25 per cubic meter.
κ Rate of spreading and rolling: Rs. 10.45 per cubic meter.

saved from cost overrun. The contention was not tenable as these lacuna were identifiable *ab-initio* and thereby considerable expenditure could have been avoided. Further, the project cost had already escalated from Rs 28.65 crore to Rs 51.23 crore indicating wrong estimation and ill planning of the project.

Thus, the Company allowed higher rates in disregard to technical specifications due to improper analysis of rates and lack of planning and thereby it incurred an extra expenditure of Rs 14.16 crore.

WEST BENGAL SURFACE TRANSPORT CORPORATION LIMITED

4.2 Injudicious borrowing of fund

Injudicious decision to borrow fund for implementation of a project without acquiring requisite land resulted in a loss of Rs 1.40 crore to the Company.

With a view to extending boarding facilities to ferrying passengers, the Company constructed Gangway – Pontoon jetties and bank protection at Lot-8 at Harwood Point and Kachuberia between December 1997 and December 1999 at a cost of Rs 4.68 crore (Government grant : Rs 2.50 crore, own fund : Rs 2.18 crore).

While the aforesaid work was in progress, the Company decided (June 1997) to develop the sites around the jetty-heads of both the points at Harwood point and Kachuberia at a cost of Rs 7.87 crore (Government grant : Rs 2.87 crore, loan from HUDCO : Rs 5 crore) and entered into (March 1998) an agreement with HUDCO for a loan of Rs 5 crore at an interest rate of 15.50 *per cent* per *annum*.

It was observed in audit that the Company approached the Transport Department and district administration only in July 1998 for acquisition of requisite 79 acres of land for construction activity. The Company has not even commenced construction of forward facility buildings so far (September 2003) due to non-availability of land which was scheduled to be started by January 1998.

Injudicious borrowing led to loss of Rs 1.40 crore.

Scrutiny revealed that without starting the process of acquiring the requisite land, the Company drew the first instalment of loan of Rs 3.51 crore from HUDCO in April 1998. As the Company had no immediate requirement, it, in contravention of the contractual provision with HUDCO, invested fund ranging from Rs 3.49 crore to rupees one crore during April 1998 to March 2002 in short term deposits with banks and Government securities at lower rates of interest of 8 - 12.5 *per cent* per *annum.* Consequently, against the interest burden of Rs 2.09 crore to HUDCO as on 30 June 2002, the Company earned Rs 69 lakh on investment leading to a loss of Rs 1.40 crore.

While accepting the observation the management stated (August 2003) that the loan fund was not meant for making any such investment and it would be unfair to conclude the above action as injudicious by comparing interest paid to the lender with the interest earned. The contention is not tenable as the Company sustained loss due to its injudicious borrowing of fund without correlating the same with the project activities.

The matter was reported to the Government (January 2003), their reply was awaited (September 2003).

THE CALCUTTA TRAMWAYS COMPANY (1978) LIMITED

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

Gross failure of the management to enforce provisions of the tender and Notification of Award on a defaulting firm resulted in a loss of revenue of Rs 79 lakh.

With a view to engaging firms as sole concessionaire for advertisement right on 250 tramcars and 3,342 tram poles for three years from May 2002, The Calcutta Tramways Company (1978) Limited (Company) invited (March 2002) open tenders with reserve rates fixed at Rs 5.50 crore (tramcars) and rupees one crore (tram poles).

Failure to enter into an agreement with a firm before commencement of work resulted in loss of revenue of Rs 79 lakh.

The Company received five and three offers for tramcars and tram poles respectively, of which the offer of Milestone Advertising, (firm), Kolkata at Rs 9.53[ψ] crore (tramcars) and Rs 1.65[®] crore (tram poles) was found to be the highest. Accordingly, the Company placed (April 2002) two Notifications of Award (NOA) on the firm at the tendered rates for a period of three years with effect from May 2002. In terms of the tender and NOA, the firm was to deposit : (a) Rs 2.23 crore towards security deposit within seven days, (b) Rs 60 lakh (tramcar) and Rs 10.52 lakh (tram poles) in advance towards quarterly rental for the quarter ending 31 July 2002, and (c) to execute an agreement with the Company after depositing security deposit and quarterly rent. In case of failure, the Company reserved the right to ignore the firm's offer and forfeit the earnest money (Rs 8 lakh).

Scrutiny in audit revealed that the Company allowed the firm to commence the work on 15 June 2002 (tramcars) and 1 June 2002 (tram poles) without obtaining security deposit and signing agreement with firm. As regards the payment of quarterly rent in advance, the firm paid only Rs 10 lakh for tramcars in August 2002 and requested (August 2002) the Company to allow rebate on rental for the tramcars on the pretext that there was out shedding[ϒ] of

ψ Tramcars – 1st year – Rs 2.42 crore, 2nd year – Rs 3.13 crore, 3rd year – Rs 3.98 crore
® Tram poles – 1st year – Rs 0.42 crore, 2nd year – Rs 0.55 crore, 3rd year – Rs 0.68 crore
ϒ Out shedding – on track

130 – 150 tramcars only as against 250 tramcars included in the tender, though there was no such clause in the tender to out-shed 250 tramcars daily. For tram poles, the firm requested (August 2002) the Company to adjust the earnest money deposit of Rs 8 lakh against the dues towards quarterly rent.

Though the Company did not enter into the agreement with the firm because of firm's lame excuses it unduly allowed the firm to complete advertisements on 300 tramcars and 3,342 tram poles and to earn revenue in violation of the conditions of the tender and NOA. But the firm did not pay any further amount towards quarterly rent, thereby depriving the Company of its legitimate income. Ultimately, the Company terminated the NOA on 18 October 2002 and suspended business relations with the firm for a period of three years, when the amount recoverable from the firm stood at Rs 79 lakh. However, the firm did not deface the advertisements on the tramcars and poles. As the advertisements continued to be displayed on tramcars and poles, the possibility of rent/ fee being collected by the firm from the advertisers could not be ruled out.

Thus, negligence of the management to enforce the provisions of the tender as well as to enter into an agreement before commencing the job resulted in a loss of revenue of Rs 79 lakh for the period from 1/ 15 June to 17 October 2002. The matter needs investigation for fixing responsibility.

In reply the Government/ management stated (June 2003) that the then Chairman cum Managing Director was the authority to enforce provisions of the tender and since no contract was made, the question of losing money did not arise. The reply is indicative of lackadaisical attitude of the management which favoured the firm to earn revenue, while its own claim remained unaddressed.

DURGAPUR CHEMICALS LIMITED

4.4 Unfruitful investment

Decision to use burnt lime as raw material for stable bleaching powder plant and injudicious expansion of the plant capacity resulted in an unfruitful investment of Rs 82.70 lakh.

Injudicious expansion of plant capacity and wrong selection of raw material led to unfruitful investment of Rs 82.70 lakh.

In order to consume the excess liquid chlorine generated in the Caustic Chlorine Plant, Durgapur Chemicals Limited (Company) decided in 1996 to install a stable bleaching powder (SBP) plant with a capacity of 15 tonne per day (TPD) at a cost of Rs 3.76 crore. Market survey and project report prepared (November 1995/ October 1996) by West Bengal Consultancy Organisation Limited envisaged demand of 17,300 tonne per annum (TPA) in 1997-98 and 19,400 TPA by 1999-2000 in the States of West Bengal, Bihar and Orissa. The project report suggested use of burnt lime as prime raw material which would be converted to hydrated lime in a slaking unit and thereafter the hydrated lime, liquid chlorine and caustic soda would be used for manufacturing Grade-I SBP. It was, however, observed that the project report did not specifically mention source of supply of burnt lime, the prime raw material.

The Company placed (April 1998) purchase order for supply of plant and machinery, engineering service, technical know-how and supervision for erection and commissioning for SBP with 15 TPD capacity on Sial Projects Engineering & Consultancy Services at a total cost of Rs 2.64 crore. However, the Company decided (July 1998) to enhance the 15 to 30 TPD capacity at an additional cost of Rs 47.40 lakh. As per the order, plant and machinery valuing Rs 35.30 lakh was purchased (1998-99) for burnt lime system which was to be used for conversion of burnt lime to hydrated lime.

The plant with 30 TPD capacity was commissioned in May 1999 at a total cost of Rs 4.33 crore. Soon after the commissioning of the plant, it was observed that required quality of burnt lime was not available in the nearby market and was procured from remote areas of Rajasthan and Dehradun. Consequently, the procured burnt lime deteriorated during transportation owing to its hygroscope nature resulting in production of low quality products leading to excessive cost in comparison to direct purchase of hydrated lime. Thus, the entire expenditure of Rs 35.30 lakh for installation of the burnt lime system proved to be infructuous.

Further, scrutiny of the production performance revealed that against the installed capacity of 9,900 tonnes per year, the plant produced only 854, 1073 and 1,116 tonnes during the last three years upto 2001-02 with an average capacity utilisation of 10.54 *per cent* per *annum* which was even lower than the 15 TPD initially planned, due to stiff competition in the market and low market penetration arising out of the Company's weak marketing strategy. This indicated that the management injudiciously increased the capacity without assessing the market demand. The management's attempt to hand over the plant to other producing units did not also fructify (September 2003).

Thus, due to wrong selection of raw materials and injudicious decision to expand the plant capacity, expenditure of Rs 82.70 lakh proved to be infructuous. While accepting the observation the management stated (May 2003) that selection of burnt lime as raw material was a wrong decision on the part of the consultant.

The matter was reported to the Government (January 2003), their reply was awaited (September 2003).

WEST BENGAL STATE FOOD PROCESSING & HORTICULTURE DEVELOPMENT CORPORATION LIMITED

4.5 Wasteful expenditure on purchase of spice minikits

The Company procured sub-standard and dead spice seeds, but the Chairman unauthorisedly ordered release of full payment to the suppliers in deviation of the contractual provision.

West Bengal State Food Processing & Horticulture Development Corporation Limited (Company) received (March 2001) Rs 98.82 lakh from the State

Government to procure and distribute seven varieties of spices[2] minikits to small and marginal farmers in nine[1] districts to ensure plantation by November 2001. However, the Company belatedly invited the tender in November 2001 for purchase of minikits. Reasons for such abnormal delay were not recorded.

Wasteful expenditure of Rs 20.25 lakh was incurred on procurement of sub-standard/ dead spice seeds.

The Company placed (2 January 2002) purchase orders on 10 suppliers for 31,680 minikits. As per the terms of the order, the suppliers would complete the delivery of minikits up to the block levels within seven days and they would be paid 50 *per cent* of value of supply on submission of receipted challan and bill and the balance payment was to be released only on receipt of field reports on germination, harvesting and clearance from Department of Food Processing Industries and Horticulture (DFPIH). In case the quality of seeds was found to be sub-standard on test of samples in the State Seed Testing Laboratory (SSTL), the suppliers were to replace the entire consignment at their own cost.

The suppliers completed (January-February 2002) the supply of 31,575 minikits and submitted bills of Rs 23.52 lakh in February 2002. Test reports of seed samples of six[Ψ] varieties conducted (February - April 2002) by SSTL, revealed that the percentage of germination in respect of chilli and black cumin seed was found zero indicating 100 *per cent* dead seeds, while germination rate of coriander seed was below the acceptable level. Consequently, 24,433 minikits valuing Rs 20.25 lakh were found to be 'dead' and substandard. However, the Company did not approach the suppliers to get replacement of these sub-standard seeds. Further, the Company failed to obtain field reports after harvesting which casts a doubt about the distribution of minikits to farmers. Despite receipt of adverse test reports and non receipt of harvesting reports, the Minister-in-Charge as the Chairman of the Company unauthorisedly ordered (October 2002) release of the full payment of Rs 20.25 lakh to all the suppliers without obtaining clearance from the Department in deviation of the contractual provision. The earnest money deposit of Rs 2.23 lakh was also paid (October 2002) to suppliers.

Thus, in violation of all contractual norms the Company accepted 24,433 minikits of 'dead' and 'sub-standard seeds' and thereby incurred wasteful expenditure of Rs 20.25 lakh, besides the farmers were deprived of getting suitable seed.

The Government/ management stated (April 2003) that the Company got seed samples re-tested (June 2002) and found it satisfactory and released payment to the suppliers after obtaining satisfactory performance reports of seeds from DFPIH. The contention is not tenable as two out of three samples re-tested pointed out that the germination percentage was below norms, while there was nothing on record to indicate that all samples sent for re-testing were drawn from same stock distributed to farmers. Further, DFPIH also confirmed

[2] Chilli, Coriander, Black cumin, Fennel, Fenugreek, Azoan and Garlic
[1] Coochbehar, Dinajpur, Jalpaiguri, Hooghly, Malda, Medinipore, Nadia, North and South 24 Parganas
[Ψ] No sample of garlic was sent to laboratory.

(August 2003) that the field reports obtained by the management from the districts were not reliable as these were not based on any feed back from Panchyat Samities nor on scientific sample survey. The matter needs investigation for fixing responsibility.

WEST BENGAL FILM DEVELOPMENT CORPORATION LIMITED

4.6 Unfruitful expenditure

The Company went for implementing a satellite television project and the expenditure of Rs 32.18 lakh proved to be unfruitful as the project failed to take off.

Unfruitful expenditure of Rs 32.18 lakh was incurred on a project without benefit to viewers.

With a view to providing an opportunity to Bengalees living in and outside Bengal to enjoy wholesome programmes of social values, West Bengal Film Development Corporation Limited (Company) took up (March/ April 2000) a project for launching a satellite television channel. As per the instruction of the State Government (March-April 2000), the Company was to undertake a market survey and to implement the project only after receipt of the report.

The Company invited (April 2000) existing and established satellite television companies to submit proposals within 5 May 2000 to obtain the viewership of existing channels and selected (July 2000) ATN World Limited (ATNIL). The Company also approached (September 2000) the Government for permission to utilise a portion of the premises of Radha Film Studio as studio and office for the satellite TV channel, after renovation by the Company at an estimated cost of Rs 15 lakh.

In November 2000 ATNIL, however, informed its inability to enter into an agreement due to ‘some unavoidable circumstances’. The Company went for re-tendering and received (November 2000) three offers, of which CKT Network (ATN Bangla) was selected. The Company also commissioned 10 programme makers to prepare 36 episodes of programmes. Scrutiny revealed that only 22 episodes were prepared at a cost of Rs 14.63 lakh in a format which was unsuitable for digital transmission. Further, the marketability of such episodes was not also assessed. Ultimately, the Company shelved the project in March 2001 on the instruction of the Government. Reason for shelving was not on record. Meanwhile, the Company incurred an expenditure of Rs 32.18[Θ] lakh on this project till August 2002 without accruing any benefit to viewers.

Thus, due to implementation of the satellite television project without undertaking a market survey and preparation of episodes without assessing their marketability, the expenditure of Rs 32.18 lakh proved to be unfruitful. Besides, the objective to provide wholesome programme to Bengalee viewers was also frustrated.

[Θ] Software – Rs 14.63 lakh, studio renovation - Rs 15.25 lakh, conveyance – Rs 1.41 lakh, others – Rs 0.89 lakh

The Government stated (February 2003) that the software would be utilised for public viewing in rural areas while Radha Studio would be utilised by the Company to earn revenue. However, the fact remains that software was not utilised so far for public viewing while no equipment was installed at Radha Studio to use it for commercial purposes. Further, no action was taken to change the present format of the software unsuitable for digital transmission.

IPP LIMITED

4.7 Undue benefit to financial consultant and its associate

Despite failure of the financial consultant to raise foreign fund for a project, the Company paid Rs 54.90 lakh to it and its associate without linking the payments to the receipt of fund.

Rs 54.90 lakh was paid to financial consultant without receiving requisite fund from foreign financiers.

A Memorandum of Understanding, inked in April 1995, among Development Consultants Limited (DCL), West Bengal Industrial Development Corporation Limited (WBIDC), Canadian Industrial Consortium (CIC) and IPP Limited (Company), envisaged to set up a joint venture for producing newsprint from whole jute plants. Accordingly, a new company Indo Canadian Papers Limited (ICPL), was incorporated in November 1996 with the Chairman of the Company also acting as the Chairman of ICPL. The Techno Economic Feasibility Report (TEFR) envisaged (September 1997) that the project cost of Rs 1259 crore was to be financed through equity (Rs 419.56 crore) and foreign loans (Rs 839.44 crore). The Company also entered (October 1998) into an agreement with ICPL to assist it in obtaining clearance and permission for implementation of the project and to incur all expenses on behalf of ICPL till the sourcing of fund.

With a view to obtaining requisite foreign currency loan, ICPL through DCL, the project consultant engaged (April 1998) Amsons Corporation[1] (Amsons) as financial consultant for a total consultancy fee of rupees one crore. The agreement provided for three advance payments of Rs 7.50 lakh[β] to Amsons, of which Rs 4 lakh was paid on 3 April 1998. The balance (Rs 92.50 lakh) was payable pro-rata only after actual receipt of loan. Amsons was to submit offers for foreign currency loan within 60 days of the agreement. Travel Makers (Eastern) Private Limited (associate) were guarantors on behalf of Amsons. Amsons approached (July 1998) ICPL for extension of time for submission of offers by 180 days and in case of failure, Amsons would refund the advance. ICPL entered (January 1999) into a supplementary agreement with Amsons that the Company on behalf of ICPL would release Rs 30 lakh to Amsons to meet the procedural cost.

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[1] A partnership firm consisting of two partners, one of whom Shri B. Haralalka was a Director of Indo Canadian Papers Limited.

[β] Development of financial package (Rs 0.50 lakh), sending business plan prepared by ICPL to prospective financiers (Rs 3.50 lakh) and acceptance of offers from foreign financiers by ICPL (Rs 3.50 lakh)

The Company received (May 1999) a loan of Rs 1.26 crore from the State Government for disbursement to the prospective financier to meet expenses relating to release of foreign fund, subject to receipt of a valid bank guarantee of equivalent value from the prospective foreign financier. However, the Company failed to obtain any such bank guarantee (September 2003).

Meanwhile, the Company released Rs 54.90 lakh between February 1998 to March 2001 to Amsons (Rs 51.81 lakh) and Travel Makers (Rs 3.09 lakh) though Amsons failed to mobilise foreign fund (September 2003). The Company stated (December 2001) that in case Amsons failed to mobilise the promised fund, they would be called upon to refund the money. However, the Company failed to get any refund from Amsons so far (September 2003). But it neither took any legal action against Amsons nor invoked the guarantee of its associate in violation of the direction (September 2001) of the Board of Directors.

Thus, decision of the Company to release payments without linking them to the actual receipt of fund led to infructuous payment of Rs 54.90 lakh to financial consultant and its associate.

The matter was reported to the Government/ Management in March 2003; their replies were awaited (September 2003).

WEST BENGAL ELECTRONICS INDUSTRY DEVELOPMENT CORPORATION LIMITED

4.8 Injudicious decision led to payment of idle wages

Webel Informatics Limited paid idle wages of Rs 50.23 lakh due to injudicious decision of its holding company to float a new company to undertake similar activities.

Webel Informatics Limited (WIL), a wholly owned subsidiary of West Bengal Electronics Industry Development Corporation Limited (WBEIDC) was engaged in the business of computer education and training; trading of computers; peripherals, computer networks etc. The Board of Directors of WBEIDC decided (May 2000) that WIL should be the principal arm for trading of IT products and related services.

Subsequently, the Board of Directors of WBEIDC in consultation with trade unions decided (December 2000) to form a new company *viz.* Webel Technology Limited (WTL), to deliver the complete range of IT services including all business activities of WIL except training on the ground that there was a lack of focus and mindset at any of its existing subsidiary companies to function as an IT services company. However, WBEIDC did not approach Government for approval.

WBEIDC proposed (December 2000) that WIL should transfer all its business activities except training to WTL, which was also approved (December 2000) by WIL subject to absorption of WIL's manpower, except those engaged in training, by WBEIDC. WIL assessed (January 2001) that out of 61 employees, only six or seven would be required.

WTL commenced operations from 16 April 2001 and between April 2001 and November 2002. WIL, without any agreement, deputed 19-22 employees to WTL and received Rs 35.18 lakh till November 2002 towards reimbursement of salary cost against the claim of Rs 53.01 lakh.

It was observed that during the same period 17 non-technical employees of WIL, who were neither associated with training nor deputed to WTL, were paid idle wages of Rs 50.23 lakh which will continue till their redeployment.

Thus, injudicious decision to form a new company resulted in payment of idle wages of Rs 50.23 lakh till November 2002.

The Government/ management stated (April 2003) that WTL was created only to serve the purpose of IT instead of WBEIDC running several subsidiaries with conflicting business goals. However, the fact remains that WBEIDC handed over the activities of WIL to WTL, to be undertaken by the existing employees of WIL and other subsidiaries as originally envisaged in May 2000.

WEST BENGAL FISHERIES CORPORATION LIMITED

4.9 Undue favour to the contractor

The Company paid Rs 26.21 lakh to a contractor beyond the contractual terms.

With a view to constructing a minor fishing harbour (estimated cost : Rs 4.93 crore) at Sankarpur in Medinipore district, the Company without inviting any tender engaged (January 1996) Braithwaite Burn & Jessop Construction Company Limited (BBJCCL) for completion of the work within two years from the date of commencement at cost plus 10 *per cent* incidental including supervision and service charges. In terms of the agreement (April 1996) all site establishment expenses[#] would be treated as prime cost and indirect expenses[@] would be reimbursed by the Company to BBJCCL as per actual in addition to cost plus incidental rates.

BBJCCL belatedly commenced the work in January 1997 and completed the same in December 2000 after a time overrun of 23 months and cost overrun of Rs 2.86 crore due to delay in finalising the selection of its sub-contractor, completion of requisite formalities and change in scope of work.

Scrutiny of bills of BBJCCL revealed that the Company paid Rs 62.46 lakh to BBJCCL as supervision and service charges. Even then it further disbursed Rs 26.21 lakh towards other indirect expenditure like travelling, xerox

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[#] salary, wages and allowances, accommodation cost, hire charges of vehicles, boats, cost of setting up of godowns, site offices

[@] premium of life insurance, ESI, policy under workmens compensation Act, all taxes, electricity charges, cost of construction of labour hutments charges, tiffin and office expenses of BBJCCL beyond the terms of the agreement. The company had released (May 2002) the final payment of BBJCCL without recovering this amount from the BBJCCL bills and thereby sustained a loss of Rs 26.21 lakh.

The Government/ management stated (January 2003) that payment towards indirect expenditure was not beyond the agreement. The contention is not acceptable as payment towards travelling, office expenses etc. were not included in the agreement as indirect expenses and hence not payable.

NATIONAL IRON AND STEEL COMPANY (1984) LIMITED

4.10 Loss due to failure to avail CENVAT credit

The Company sustained loss of Rs 25.17 lakh due to its failure to get the capital goods consigned in its name to avail CENVAT credit.

Under Central Value Added Tax (CENVAT) Scheme of the Central Excise Act 1944, manufacturers are entitled to avail CENVAT credit with effect from 31 March 2000 on excise duty paid on capital goods (e.g. machinery, plant, equipment, apparatus etc.) for manufacture of final products and to adjust the credit against the payment of the excise duty on such final products. To avail this benefit, manufacturers must ensure that capital goods are consigned in their name and they must submit the declaration to the excise authorities with details of capital goods purchased and excise duty paid thereon.

National Iron and Steel Company (1984) Limited (Company) placed (July 1999) a letter of intent (LOI) on MECON Limited (MECON) for design, engineering, supply, erection, testing and commissioning of plant and equipment for the 18" bar mill at its factory at Belur. The Company also engaged (January 1999) Steel Authority of India Limited (SAIL) for providing consultancy services towards engineering, procurement of machinery and project management for commissioning of the 18" bar mill.

During April to November 2000 the Company procured plant and machinery valuing Rs 1.59 crore through MECON for installation at the 18" bar mill for manufacture of excisable steel bars and paid Rs 25.17 lakh towards excise duty on such capital goods.

It was noticed in audit that there was no provision in the LOI (July 1999) for passing the CENVAT credit to the Company. SAIL, the project consultant, also failed to advise the Company to direct the suppliers of the plant and machinery to consign the capital goods in its favour to avail CENVAT credit. The plant and machinery were actually consigned in the name of MECON, the contractor and consequently, the Company failed to avail CENVAT credit of Rs 25.17 lakh on capital goods.

Thus, failure of the Company to observe requisite procedure to avail CENVAT credit on capital goods resulted in a loss of Rs 25.17 lakh. The

Company did not also lodge any claim with SAIL for making good the loss. In reply the management accepted (March 2003) the observation.

The matter was reported to the Government (December 2002), their reply was awaited (September 2003).

WEST BENGAL CERAMIC DEVELOPMENT CORPORATION LIMITED

4.11 Unfruitful investment

Failure to produce quality sanitary wares as well as to improve the technical knowledge of the workforce before going for investment towards modernisation led to an unfruitful investment of Rs 96.80 lakh.

The Belgharia factory of the Company was engaged in production of crockery, flower vase, potteries, ceramic insulators, rasching ring, saddles, ceramic dolls, etc. As most of the plant and machinery of the factory were very old and in dilapidated condition, the Company decided to modernise the plant and machinery and also to start production of sanitary wares to make the unit commercially viable which was also approved by the State Government in June 1993. The modernisation programme was aimed to produce 60 MT of sanitary wares per month. The Company incurred an expenditure of Rs 42.37 lakh towards installation of new kiln and allied machinery up to March 1996.

Even after installation of the new machinery, the unit produced on an average three to five MT of finished products per month as against the targeted production of 60 MT per month due to ill-conceived product-mix, sweeping projections and presumptions in the modernisation scheme and lack of technical knowledge of work force.

Implementation of modernisation scheme without assessing technical knowledge of workforce led to an unfruitful investment of Rs 96.80 lakh.

The Company reassessed (February 1998) that the unit would be economically viable with the production of at least 169 MT of saleable products per month. Accordingly, the Company proposed installation of additional machinery at a total cost of Rs 96.80 lakh. As regards marketability of the products, the management assessed (February 1998) that in eastern zone the market potential was about Rs 25 crore per *annum* as against the Company's targeted sale of Rs 1.84 crore to Rs 2.38 crore per *annum* during the first five years of production after modernisation. Thus, the project intended to have a share of about 10 *per cent* of the total market size. It was envisaged (February 1998) that at 70 *per cent* capacity utilisation, the annual production of 1,272-1,420 MT would fetch a profit of Rs 24 to Rs 31 lakh per *annum*. The modernisation scheme was approved by the Government on 11 February 1999 and additional machinery was installed by November 1999 at a cost of Rs 96.80 lakh.

After modernisation the average production was only 2.6 MT to 5.9 MT per month till March 2003 as against the installed capacity of 169 MT per month mainly due to inability to produce quality products. Consequently, against the targeted sales of 2,730 MT, the Company sold only 84.30 MT till March 2003.

The Government/ management stated (July 2003) that in spite of installing additional plant and machinery the desired result could not be achieved as the workforce lacked proper technical knowledge to use new machinery for producing quality and variety products at a competitive rate prevailing in the market. The reply is indicative of the fact that the management went in for implementing two modernisation schemes without assessing the technical knowledge of the workforce leading to an unfruitful investment of Rs 96.80 lakh.

WEST BENGAL INFRASTRUCTURE DEVELOPMENT FINANCE CORPORATION LIMITED

4.12 Loss of interest

The Company failed to invest idle fund lying in current accounts in short term deposits with banks and thereby sustained a loss of interest of Rs 2.14 crore.

Loss of interest of Rs 2.14 crore was sustained due to non-investment in short term deposits.

West Bengal Infrastructure Development Finance Corporation Limited (Company), raised fund of Rs 2,994.72 crore and Rs 2,460.53 crore respectively in 2000-01 and 2001-02 through issue of bonds, short-term loans from commercial banks, loans from HUDCO etc. The Company also received repayment of principal and payment of interest from different loanees including the Government of West Bengal. The Company deposited fund first into 10 to 12 non interest bearing current accounts of 12 banks and then utilised for payment of interest to bond holders, payment of sinking fund investments, term loan interest and payment of brokerage and commission etc. The Company did not, however, specify the maximum balances to be kept in current accounts so as to ensure investment of surplus fund lying in the current accounts to earn interest.

Scrutiny of balances in these current accounts for 2000-01 and 2001-02 revealed that after meeting all liabilities aggregating Rs 1,053.32 crore and Rs 1,595.95 crore respectively, the Company had balances of Rs 2.22 crore to Rs 57.51 crore lying idle for 15 to 31 days in five (2000-01) and six (2001-02) current accounts. Even if 80 *per cent* (after setting aside 20 *per cent* for meeting contingency) of available surplus fund in current accounts were invested in short-term deposits for periods of 15 to 31 days, the Company could have earned interest of Rs 2.14 crore during 2000-01 and 2001-02 at the rate of 6.50 to 8.50 *per cent* per *annum*, offered by these banks for short term deposits.

Thus, failure of the Company to evolve a policy to monitor the surplus fund available in current accounts resulted in a loss of Rs 2.14 crore to the Company.

The management stated (August 2003) that as the Company had to put substantial money into deposit account maintained with the State Government at short notice, short term deposits had to be prematurely encashed to meet such exigencies. The contention is not acceptable as the Company raised fund to meet the financing of infrastructural projects and not to meet the requirements of the State Government. Further, the Company did not prepare cash flow to ascertain the requirement of State Government so as to determine the surplus fund for investment, leading to a loss of Rs 2.14 crore.

This matter was reported to the Government in January 2003; their replies were awaited (September 2003).

WEST BENGAL FOREST DEVELOPMENT CORPORATION LIMITED

4.13 Excess wastage of timber due to lack of management control

The Company sustained loss of Rs 53 lakh on account of excess wastage of stock at its joinery & carpentry unit, Salt Lake due to lack of management control over issue of stock and inadequate maintenance of stock records.

The joinery & carpentry unit (JCU) of the West Bengal Forest Development Corporation Limited (Company) at Salt Lake manufactures wooden furniture against orders received from customers and utilises sawn timber for this purpose from its stock. Job work estimates are prepared by JCU with a permissible wastage margin of 10 *per cent* of the quantity of wood required. Wood is issued from stock inclusive of such wastage. The waste bits and short pieces were retrieved and stored in vats for disposal. However, the Company maintained no stock records of the waste bits and short pieces generated. Moreover, the system of physical verification of stock was introduced only in August 2000. Hence, the possibility of good quality timber being disposed of as short pieces/ waste bits cannot be ruled out in audit.

Between 1998-2002, JCU undertook 528 jobs at a value of Rs 2.38 crore requiring 612 cubic metres (M^3) wood excluding permissible wastage of 10 *per cent*. JCU accounted for issue of only 673 M^3 wood (cost : Rs 89.78 lakh) based on aggregate of requirement and permissible wastage instead of actual issue of 1,056 M^3 (cost : Rs 1.28 crore) in this period. As a result, during the same period, 444 M^3 waste bits and short pieces were generated against permissible wastage of 61 M^3. Thus, wastage of 383 M^3 valued at Rs 38.58 lakh was generated in excess of the permissible limit of 10 *per cent*. The entire quantity of wastage (444 M^3) was sold by the Company for Rs 9.64 lakh.

Scrutiny in audit revealed (October/ December 2002) that JCU deducted the entire quantity of wood required for carpentry jobs including permissible wastage (673 M^3) from stock. The quantity of waste and short pieces generated (444 M^3) were not accounted for in stock records. However, at the time of sale of such waste and short pieces JCU deducted the entire quantity of waste and short pieces sold (444 M^3) from stock for reasons not explained by the management. Further, the physical verification report of August 2000 revealed timber stock shortage of 198 M^3 valued at Rs 24.06 lakh.

The management attributed (August 2000/ January 2002) the loss to lack of control over issue of stock, inadequate maintenance of stock records and wrong selection of different sections and sizes of sawn timber. This indicated the absence of management control over issue of stock.

Thus, the Company sustained loss of Rs 53 lakh due to excess wastage of timber arising from lack of management control over stock.

The Government stated (September 2003) that no record of timber issued to a particular job was maintained and control forms had since been introduced for individual job orders. However, it was not possible to pinpoint individual lapses and measures had been taken to prevent recurrence.

Statutory corporations

CALCUTTA STATE TRANSPORT CORPORATION

4.14 Excess payment of management fee

The Corporation proposed to induct 500 buses under lease finance scheme against the capability of running 200 buses and thereby paid excess management fee of Rs 28.17 lakh to the financial institution.

The Board of Calcutta State Transport Corporation (Corporation) proposed (October 1999) to procure 500 buses from ICICI Limited (ICICI) under lease finance scheme to augment city and long route passenger services and also operate long distance inter and intra-state routes. The State Government was to furnish a guarantee for the facility. The Government/ Corporation intended (February 2000) to operate some of these buses on franchise basis but the proposal was not followed up. A committee, constituted (February 2000) to examine the modus operandi for induction and operation of these buses, recommended (March 2000) that not more than 200 buses be procured in view of Government's direction (February 2000) that the new buses be operated with existing staff strength. These 200 buses would be operated by operating at least existing 250 buses on single shift basis instead of two shift and crews of these 250 buses would be re-deployed for running 200 new buses.

Meanwhile, the Corporation had approached (September 1999/ March 2000) the Government to recruit 300 ex-servicemen on contract basis to operate 500 buses. However, the Government did not respond to the proposal and the Minister-in-charge (Transport) directed (July 2000) the Corporation to adopt a rational view in this regard. The Board decided (July 2000) to procure 500 buses at Rs 45 crore under lease finance from ICICI against Government guarantee for Rs 50 crore and entered (October 2000) into an agreement for the same. The agreement, *inter alia*, provided for procurement of all buses within 30 November 2000 and payment of lease management fee of Rs 47.25 lakh at the rate of 1.05 *per cent* of the total value (Rs 45 crore) by the Corporation to ICICI. The Corporation paid the lease management fee of

Rs 47.25 lakh in October 2000, while it had not paid any guarantee fee to the State Government so far (September 2003).

On the request (November 2000) of the Corporation, ICICI agreed (January 2001) to extend period of supply to 31 March 2001. The Corporation was able to procure only 200 buses at Rs 18.17 crore till March 2001 and ICICI was not agreeable to further extend the period. Consequently, the Corporation had to bear an excess payment of Rs 28.17 lakh towards management fee (Rs 47.25 lakh less Rs 19.08 lakh[*]).

The Government/ Corporation stated (March-August 2003) that the acquisition was restricted to 200 buses since ICICI refused to extend the time frame for these acquisition. Further, due to fall in interest rates, the Corporation was saved from higher interest burden. The reply was facile since the management went for procuring 500 buses contrary to the direction of the Government (February 2000) as well as recommendation of the committee (March 2000) which ultimately led to such excess payment of management fee. Further, the Corporation contracted to procure 500 buses within November 2000, which was also extended by ICICI to March 2001.

GREAT EASTERN HOTEL AUTHORITY

4.15 Loss due to contribution at higher rate to Employees' Provident Fund

The Authority, though liable to contribute employer's share at a lower rate of 10 per cent, ended up contributing at a higher rate of 12 per cent in deviation of the provisions of the Employees Provident Fund and Miscellaneous Provisions Act, 1952 and thereby sustained loss of Rs 32.19 lakh.

The Employees' Provident Fund and Miscellaneous Provisions Act, 1952 stipulates that under Contributory Provident Fund Scheme an employer shall contribute to the Provident Fund at rates as prescribed by the Central Government from time to time under Section 6 of the Act, *ibid*. Till May 1989, the rate was uniform at 8.33 *per cent* for all establishments covered under the Act. From June 1989, the Central Government enhanced the rate to 10 *per cent* while for certain specified establishments, the rate was continued at 8.33 *per cent*. The establishments entitled to the lower rate of contribution included those which had accumulated losses equal to or exceeding its entire net worth[#] at the end of any financial year and had also suffered cash losses[$] in such financial year and in the immediately preceding financial year. The Central Government enhanced (June 1998) the rates to 12 and 10 *per cent* from 10 and 8.33 *per cent* respectively with effect from 22 September 1997.

Great Eastern Hotel Authority (Authority) had incurred cash losses of Rs 90.35 lakh and Rs 79.11 lakh in 1995-96 and 1996-97 respectively.

[*] At 1.05 per cent of Rs 18.17 crore
[#] The sum total of paid-up capital and free reserves
[$] Loss as computed without providing for depreciation

Further, the accumulated loss (Rs 1.76 crore) as of 31 March 1997 exceeded the net worth (Rs 8.55 lakh). Thereafter, the Authority sustained loss in each of the financial year from 1997-98 to 2000-01 and the accumulated loss exceeded the net worth. Consequently, as provided in the Act, the Authority was liable to contribute at the lower rate of 10 *per cent*.

Audit observed (August 2002) that without examining the provisions of the Act, the Authority had been contributing at the rate of 12 *per cent* since 22 September 1997 on the specious pretext that the Enforcement Officer, Provident Fund had instructed (November 1997) the payment of contribution at higher rate. However, the Authority did not approach the Provident Fund authorities against the order of the Enforcement Officer. On the other hand, the Authority paid Rs 1.93 crore as employer's contribution at the rate of 12 *per cent* for the period from 22 September 1997 to July 2003, instead of Rs 1.61 crore at the rate 10 *per cent* leading to a loss of Rs 32.19 lakh.

In reply the management stated (July 2003) that the matter was taken up (January 2003) with the Provident Fund Authority who observed that as the Great Eastern Hotel was not declared sick and no prayer was submitted to Regional Provident Fund Commissioner for exemption from the contribution at higher rate, lower rate would not be permissible. The contention is not acceptable as the Authority continuously contributed at higher rate without examining the provisions of the Act, *ibid* and also failed to appeal for getting exemption from the contribution at higher rate.

WEST BENGAL STATE ELECTRICITY BOARD

4.16 Loss of incentive

The Board failed to draw incentive of Rs 420.82 crore under the Accelerated Power Development and Reforms Programme due to its failure to prepare its accounts correctly.

The Ministry of Power, Government of India (GOI) constituted (February 2001) a new scheme, *viz.* Accelerated Power Development Programme (APDP) to leverage power sector reforms in the States.

Incorrect accounting and erroneous calculation of reduction of loss resulted in loss of incentive of Rs 420.82 crore.

To speed up these reforms, a Memorandum of Understanding (MOU) was signed (5 May 2001) between GOI and Department of Power, Government of West Bengal (GOWB), as a joint commitment to implement reform measures. It was envisaged that on implementation of these measures, West Bengal State Electricity Board (Board) would achieve break-even by March 2003 and earn positive returns thereafter. In February 2002, the APDP was re-christened as Accelerated Power Development and Reforms Programme (APDRP).

Under APDRP, funds were to be channelised in two components-(a) investment by way of loans/ grants for specific projects, and (b) incentive at 50 *per cent* of the reduction in gap between unit cost of supply and average revenue realised. The incentive would be determined by

GOI annually, with the audited accounts of 2000-01 treated as the base year as compared to which improvement would be assessed.

Accordingly, the Board entered (27 July 2002) into a Memorandum of Agreement (MOA) with GOI which envisaged that an incentive would be provided by GOI to the Board for actual cash loss reduction by way of matching grants as follows :

(a) the Board was to submit its provisional annual accounts for the period ending 31 March of the previous financial year for evaluation by GOI to arrive at actual improvement/ reduction in the gross operating surplus/ deficit over the audited figures of the immediately preceding financial year;

(b) the actual improvement in the surplus or deficit, as the case may be, would be determined after excluding revenues attributable to tariff increase to subsidising categories of consumers; additional generation, purchase and sales of units and increase in input costs of generation;

(c) twenty-five *per cent* of provisional incentive thus arrived at would be given as advance grant for the year; and

(d) the Board would be entitled to balance 75 *per cent* grant only on submission of the audited accounts of the previous year before the end of the financial year.

Thus, to avail this incentive for the financial year 2001-02 in the subsequent year, it was imperative on the Board to prepare the accounts for 2000-01 and 2001-02 after considering only realisable income, all accrued revenue expenditure and known losses/ liabilities. Moreover, the Board should submit the audited accounts within 31 March 2003. Audit observed (July 2002) that the Board had understated the loss of Rs 672.72 crore for 2000-01 by Rs 2,182.07 crore. Even after Audit highlighted this gross distortion, the Board failed to revise the accounts for 2000-01 on the pretext that the accepted audit observations relating to a particular financial year were accounted for only in the subsequent financial year.

The MOA was effective from the date of signing i.e. 27 July 2002. The audited accounts for 2000-01 and the unaudited accounts for 2001-02 were submitted by the Board in February 2003. The accounts for 2001-2002 reflected a loss of Rs 1,473.73 crore. Since the Board was under the erroneous impression that the loss for 2001-02 exceeded the loss for 2000-01, the Chairman intimated (February 2003) the Board that it could not avail the incentive as the loss had increased.

It was only after being pointed out (May 2003) in audit that the Board followed-up with GOI and re-assessed (July 2003) the losses after considering the qualifications in the Audit Reports at Rs 2,013.92 crore and Rs 1,172.28 crore in 2000-01 and 2001-02 respectively. This indicated a decrease in loss by Rs 841.64 crore in 2001-02 over 2000-01, against which the Board was entitled to incentive of Rs 420.82 crore for 2001-02. In July 2003, the Board resolved to move GOI with relevant details and accounts relating to financial years 2000-01, 2001-02 and 2002-03 for filing claim in respect of incentive. The incentive for 2001-02 had, however, become time-barred after March 2003. This led to loss of Rs 420.82 crore to the Board due to incorrect accounting and wrong impression about the admissibility of the claim.

The Government, while not disputing the facts, stated (August 2003) that the accepted audit observations relating to a particular financial year were consistently being accounted for in the subsequent financial year. Further, the Board had submitted its audited accounts for 2000-01 and unaudited provisional accounts for 2001-02 to GOI for evaluation of incentive under letter of 3 February 2003. GOI acknowledged receipt on 7 July 2003. Moreover, all decisions in connection with incentive were taken by the Board, and thus there was no question of fixing responsibility.

The reply is not tenable since the loss of incentive of Rs 420.82 crore was clearly the result of erroneous calculation of reduction of loss in terms of MOA guidelines.

4.17 Avoidable payment of interest

The Board defaulted in payment against bills re-discounted under IDBI bill re-discounting scheme and converted the dues against the promissory notes into term loans without undertaking the cost benefit analysis, leading to payment of excess interest of Rs 10.41 crore.

Between 1971-72 and 1992-93, the Board availed the IDBI Bill Rediscounting facility[1] for purchase of line materials like conductors, transformers etc. and had paid the dues regularly till May 1992. In the event of default, interest would be levied at penal rates on the overdue amount.

The Power Department instructed (June 1992) the Board to prioritise payments to suppliers of energy and to make payments towards loans and interest thereon only after obtaining prior permission from the department. Instead of continuing the payments with prior approval, the Board started defaulting the payments against bills re-discounted from June 1992. Consequently, the banks levied penal interest (Rs 18.47 crore) since June 1992 at 16 *per cent* per annum for the period of default.

The Board approached (April 1995 - March 1997) five banks[2] to convert the dues (Rs 41.90 crore) along with penal interest (Rs 18.47 crore) into term loans. Accordingly, Rs 60.37 crore due to these banks were converted into term loans. The terms and conditions of the conversion were : (a) moratorium of one year on repayment of principal, (b) payment of interest at prime lending

[1] Industrial Development Bank of India (IDBI) introduced (April 1965) the Bill Rediscounting scheme enabling a purchaser of capital goods to make down payment of only ten *per cent* value of materials along with taxes and duties in full. The balance 90 *per cent* was payable through five promissory notes (PN) with usage period up to 57 months and bearing interest at prevailing rates. The seller would discount these PNs with his banker who would get these rediscounted with IDBI. On maturity, the banker would pay the amount to IDBI and realise the same from the purchaser.

[2] Allahabad Bank, Indian Overseas Bank, UCO Bank, United Bank of India, Union Bank

rates of Reserve Bank of India plus 1.5 *per cent* per *annum*, (c) quarterly payment of interest, and (d) repayment of principal in ten half-yearly instalments.

Failure to undertake the cost benefit analysis before converting dues against promissory notes into term loans resulted in payment of excess interest of Rs 10.41 crore.

During 1995-99 the Board paid Rs 49.70 crore to meet the commitment against the term loans including interest thereon. It was observed that even without conversion of dues into term loans, dues of Rs 41.90 crore against five banks would have been repaid by 31 March 1999, with Rs 7.80 crore available for paying penal interest. The Board could have taken up the matter of penal interest with the banks after such repayments, as suggested by the Member (Finance and Accounts) in December 1998. Had the Board not opted for conversion and made repayments of dues (Rs 41.90 crore) against the promissory notes (PNs) only to these five banks, the Board would have incurred further penal interest of Rs 25.51 crore, in addition to funded penal interest of Rs 18.47 crore aggregating Rs 43.98 crore. Against this, the Board actually paid Rs 54.39 crore towards interest on term loans.

Thus, due to failure to assess the economics of the benefit of the conversion *vis-à-vis* availability of concession in the event of fulfilment of the commitment to pay PNs the Board paid excess interest of Rs 10.41 crore.

The Government/ Board stated (July 2003) that though the Board incurred fresh liability by way of interest it avoided at least one possible litigation, saved penal interest calculated on simple rate instead of compound rate and also got relief during the period of cash crunch owing to moratorium allowed on term loans. It also enjoyed benefit of lower interest on servicing the term loans due to drop in banks' lending rates.

The contention is not tenable in view of the following :

(a) Since the Board had 36 cases in different courts/ tribunals involving PN claims of Rs 185.77 crore, which could hardly matter if another litigation was lodged against it.

(b) The Board either entirely settled or reached the final stage of settlement in respect of 15 such cases, of which in six cases the Board had saved Rs 5.76 crore through one time settlement with the banks out of the court.

(c) The Board availed the benefit of less interest, as it had paid the dues against PNs first and then negotiated for reduction in the penal interest. The same process could have been also followed for the dues against these five banks.

(d) The liability could have been met from the amount deployed for servicing the term loans.

4.18 Construction of sub-stations

Injudicious decision to install 132/ 33 KV sub-station at Gangarampur resulted in redundant investment of Rs 11.78 crore. Further, inordinate delay in constructing 33 KV sub-station at Gangarampur led to transmission loss of 57.33 MU valued at Rs 12.61 crore.

(a) With a view to eliminating low voltage problem in the areas of Balurghat and Gangarampur (District : Dakshin Dinajpur) as well as transmission loss arising from overloading of 33 KV net work catering the areas, the Board issued (July 1994) a work order for augmenting Balurghat sub-station to 132/ 33 KV at an estimated cost of Rs 2.29 crore. However, the Board did not take up the work due to paucity of fund and as requisite heavy transformers could not be transported to Balurghat due to load restriction on enroute bridges/ culverts.

Injudicious decision to install 132/ 33 KV sub-station at Gangarampur led to unfruitful investment of Rs 11.78 crore.

Subsequently, as a part of strengthening the transmission system in West Bengal under JBIC[1] funding, the Board issued (March 2000) a work order for supply, erection and commissioning of a 132/33 KV sub-station at Gangarampur with two 12.5 MVA transformers and loop-in and loop-out from Raiganj-Balurghat 132 KV line at Gangarampur at an estimated cost of Rs 8.43 crore. For evacuation of power, the Board issued (June 2000) another work order for erection of three 33 KV line from Gangarampur 132/33 KV sub-station to 33/11 KV sub-stations at Salas, Buniadpur and Kushmundi with terminal arrangements by September 2002 at a cost of Rs 2.30 crore. However, the work was not completed so far (September 2003) as the works relating to feeding sub-stations and evacuation lines were yet to be completed.

It was noticed that the Board planned to link 33/11 KV sub-stations at Buniadpur and Kusmandi/ Harirampur with Gangarampur sub-station delinking the same from Malda and Raiganj sub-station. It also planned to link Salas 33/11 KV sub-station with Gangarampur sub-station. This unnecessary re-arrangement of feeding source rendered 76[®] kilometres of 33 KV line valued at Rs 1.46 crore idle.

It was observed that while the work of erecting the Gangarampur 132/ 33 KV sub-station was in progress the Board revived (April 2000) the earlier scheme of July 1994 on the ground that the Minister-in-charge, Power Department and the Chairman, Balurghat Municipality were pressing hard to erect 132 KV sub-station at Balurghat on priority basis. Accordingly, Balurghat sub-station was augmented (December 2001) with four 12.5 MVA transformers at a cost of Rs 3.93 crore which catered the need of 33/11 KV sub-stations at Balurghat, Salas, Boro-Raghunathpur, Kumargunj (Mahipur) and Hilli.

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[1] Japan Bank for International Co –operation

[®] Balurghat – Salas : 35 Kms, Kaliaganj – Kushmundi : 12 Kms, Gajol – Buniadpur : 29 Kms

Thus, for catering the existing demand of 27.50[2] MVA and projected demand of 45.20[3] MVA, the Board had already installed 50 KVA capacity at Balurghat and had another 25 MVA capacity in the pipe-line at Gangarampur.

Further, as per the data of Directorate of Industries, Government of West Bengal, no industrial unit was on anvil in Dakshin Dinajpur District. As the capacity of 132/33 KV sub-station at Balurghat was adequate to cater the present as well as future demand, besides Malda and Raiganj sub-stations had enough capacity to feed Buniadpur and Kusmundi/ Harirampur 33/11 KV sub-stations. Thus, the decision to install 132/33 KV sub-station at Gangarampur was not judicious and consequently, the entire investment of Rs 11.78[4] crore in and around Gangarampur proved redundant.

The Government/ Board stated (March 2003) that due to overloading of 33 KV network the area was suffering with low voltage problem and very high system loss (9.164 MW). After injection of power in the system from Gangarampur 132/33 KV sub-station, the voltage would be improved and yearly 20.24 MU transmission loss (value : Rs 4.31 crore) reduced along with additional income of Rs 3.16 lakh from increase in demand.

The reply is not tenable in view of the following:

(i) The major part of the transmission loss (5.21 MW) was due to feeding of two 33/11 KV sub-stations at Salas and Gangarampur by one 33 KV feeder from Balurghat, which could be minimised by segregating the feeder for each sub-station at a cost of Rs 93.85 lakh.

(ii) While working out the reduction in transmission loss, the Board assumed 43 *per cent* load factor against the normal system load of 30 *per cent* in these areas. Considering the 30 *per cent* load factor, the loss of 9.164 MW would be reduced by 3.636 MW after segregating the feeder, leaving a system loss of 1.728 MW (value : Rs 96.54 lakh) which would be more than the anticipated loss after installation of Gangarampur 132/33 KV sub-station. For saving this loss, the Board invested Rs 11.78 crore for which the interest burden would be Rs 1.71 crore per *annum*. Thus, the investment decision was injudicious.

Delay in constructing 33/ 11 KV sub-station led to transmission loss of 57.33 MU valued at Rs 12.61 crore.

(b) The Board catered the demand in the Salas and Gangarampur areas through Salas 33/11 KV sub-station without installing a 33/11 KV sub-station at Gangarampur. The Board issued (March 1995) a work order for erection of 33/11 KV sub-station at Gangarampur by March 1997 for improvement of voltage in the area at a cost of Rs 1.21 crore. Though the requisite land was acquired by September 1997, the Board did not commence the work, for which no reason was recorded. After lapse of more than four years, the Board issued (January 2000) another work order for erection of a 33/11 KV sub-station in the 132/33 KV Gangarampur sub-station premises by March 2002 at

[2] Balurghat, Salas, Boro-Raghunathpur Kumargunj and Buniadpur including part of Gangarampur and Harirampur.

[3] Balurghat, Salas, Boro-Raghunathpur, Kumargunj, Buniadpur, Kushmandi, Hilli and Harirampur

[4] Cost of 132/ 33 KV sub-station (Rs 8.43 crore), three 33 KV lines (Rs 2.30 crore) and four 33 KV feeder bays (Rs 1.05 crore)

a cost of Rs 2.38 crore. However, the work was not completed so far (September 2003). Consequently, the Board suffered a system loss of 57.33 MU energy valued Rs 12.61 crore during 1997-2003.

4.19 Extra expenditure on procurement

Inordinate delay in finalising the tender resulted in an extra expenditure of Rs 43.92 lakh on procurement of transformers.

The Central Stores and Purchase Department (CS&PD) of the Board invited (April 2001) open tenders for purchase of 1,370 transformers of 63 KVA and 1,010 transformers of 100 KVA, 11/0.4 KV capacity. In response, the Board received (June 2001) offers from 17 state based and three outside-parties with a validity period of 120 days from the date of opening of tenders. The rates of Rs 0.35 lakh (63 KVA) and Rs 0.44 lakh (100 KVA) per transformer offered by Orissa Transformer Private Limited, Bhubaneswar (OTPL) for supply of 500 transformers of each type was found to be the lowest in both the categories.

Scrutiny revealed that the rates offered by the state based parties were higher than the rates of OTPL by 16 to 49 *per cent*. The CS&PD negotiated with all the tenderers except OTPL and asked them to submit their revised offers to match with the rates offered by OTPL. However, only Dhanalaxmi Equipment (Private) Limited, Jaipur, (DEL) agreed (November 2001) to accept OTPL rates. The state based parties alternately offered (November 2001) to accept the OTPL rates with 15 *per cent* loading on the rates which was agreed to (November 2001) by the CS&PD.

Meanwhile, the validity of the offers expired on 9 October 2001 and the CS&PD requested (December 2001) all the parties to extend the validity period of their offers up to February 2002. All the parties agreed (December 2001) to extend the validity period except OTPL who denied on the ground that it booked orders up to its capacity.

The Board decided (January 2002) to procure 580 transformer of 63 KVA and 240 of 100 KVA from DEL (50 *per cent*) and the state based parties (50 *per cent*). Accordingly, purchase orders for 290 transformers of 63 KVA and 120 transformers of 100 KVA were placed (March 2002) at Rs 0.41 lakh and Rs 0.50 lakh respectively per transformer on 13 state based parties . The order on DEL was not placed as the test certificates submitted by them were found (March 2002) to be forged.

In order to meet the shortfall in procurement against the tender (April 2001) the CS&PD again invited (March 2002) tenders for procurement of 2,007 transformers of 63 KVA and 831 transformers of 100 KVA and obtained the rates at Rs 0.38 lakh and Rs 0.49 lakh each for 63 KVA and 100 KVA respectively. Purchase orders for 870 transformers of 63 KVA and 311 of 100 KVA were placed (May 2002) on 17 state based parties. Thus, the

Board purchased altogether 1160 transformers of 63 KVA and 431 transformers of 100 KVA against two tenders (April 2001-March 2002).

It was observed (November 2002) in audit that due to inordinate delay in finalising the tender, the Board failed to place orders on OTPL for supply of 500 transformers of each type though their rates were found to be L1 and quantity offered was within 50 *per cent* of total requirement (as per the purchase policy of the Board). Instead, the Board procured the same from state based parties at higher rate resulting in an extra expenditure of Rs 43.92 lakh on procurement of 500 transformers of 63 KVA and 431 transformers of 100 KVA based on the offer of OTPL to supply 500 transformers of each specification.

While accepting the fact, the Government/ Board stated (July 2003) that the extra expenditure incurred on procurement of 410 transformers of 63 and 100 KVA was Rs 23.30 lakh. The contention is not acceptable as after comparing the rates of OTPL for supply of 500 transformers of each specification with that of state based parties against both the tenders, the extra expenditure worked out in audit was Rs 43.92 lakh

4.20 Loss of revenue

The Board sustained a loss of potential revenue for Rs 95.15 lakh due to delay in effecting service connection and erection of second feeder besides foregoing service connection charges of Rs 63.70 lakh.

With a view to meeting the demand (7500 KVA) of New Note Press Project (NNPP) at Salbani (district-Medinipore), the Board proposed (December 1990) to supply energy from Chandrakona Road 132/33 KV sub-station through two separate single circuit lines. NNPP accepted the proposal and deposited (June/ August 1991) Rs 1.61 crore with the Board towards the requisite service connection charges for two separate single circuit lines. The Board issued (September 1991) a work order for completion of two lines by March 1993 at a cost of Rs 1.68 crore. However, after a lapse of more than one year, the Board engaged (November 1992) the erection contractor for completion of only one single circuit line by September 1993. Reason for not taking up the work of another circuit line was not on record. The work was commenced belatedly in February 1993 and the service connection was ultimately effected in March 1996 with one single circuit line due to delay on the part of the Board to approach (November 1993) the railway authority for arranging requisite way leave as well as belated supply of requisite line materials to the contractor.

It was observed in audit that after lapse of more than another three years it was decided (August 1996) in the meeting with the NNPP that the Board would draw the 32 km (33 KV) second line from Dharma 220/132/33 KV sub-station instead of Chandrakona sub-station. Accordingly, the Board requested (October 1996) NNPP to pay additional service connection charges of

Rs 1.23 crore[5] to meet the revised cost for drawing the additional length of second line from Dharma sub-station. While accepting the decision, NNPP refused (October 1996) to pay Rs 1.23 crore on the ground that cost revision arose only from long delay on the part of the Board in taking up the construction work of the second line. Ultimately, NNPP paid (July 1997) Rs 59.17 lakh and thereby the Board had to forego Rs 63.70 lakh towards service connection charges.

The work of construction of second line was commenced in December 1998 and completed in July 2001 against the target date of March 1999. In the absence of records, reason for time and cost overrun could not be analysed in audit.

Thus, lack of planning in selecting the sub-station for drawing the second circuit line and inordinate delay in erecting both the lines resulted in a loss of potential revenue of Rs 95.15 lakh towards standing charges (Rs 45.43 lakh) and annual minimum guaranteed revenue (Rs 49.72 lakh) besides foregoing Rs 63.70 lakh towards additional service connection charges.

The Government/ Board stated (February 2003) that as the service connection charges were realised on the basis of revised cost data, the Board did not forego Rs 63.70 lakh and as there was no sale of energy during the period of delay, there was no loss of revenue. The contention is not acceptable as the Board lost potential revenue towards standing charges and annual minimum guaranteed revenue in terms of the agreement due to its failure to complete the work for supply of energy within the schedule date, while it had forgone Rs 63.70 lakh due to its ill planning and inordinate delay in selecting the substation for drawing the second circuit line.

4.21 Loss due to under insurance

The Board sustained a loss of Rs 25 lakh due to under insurance of its material and equipment.

The Board took out (September 1998) a marine-cum-erection policy from United India Insurance Company Limited (UIIC) to cover the risk of fire, lightning, flood, inundation, burglary, theft etc. for imported and indigenous computers, antenna, microwaves etc at a sum insured of Rs 27.24 crore with a total premium of Rs 18.82 lakh for 24 months from 18 September 1998 to 17 September 2000. These communication materials/ equipment were stored in seven locations including in the basement store of the common service branch of the Board at Bidyut Bhavan, Kolkata.

Scrutiny in audit revealed that due to incessant rain on 24 September 1999, the basement store at Bidyut Bhavan was inundated leading to severe damage to the communication materials/ equipment. After replacement of the damaged materials/ equipment, the Board lodged (August 2001) a claim of Rs 1.68 crore with UIIC. The Surveyor of UIIC assessed (July 2002) the loss

[5] After adjustment of Rs 75.85 lakh already deposited in June 1991 against the revised cost estimate of Rs. 1.99 crore

at Rs 99.28 lakh after deducting the salvage value. However, UIIC reduced (July 2002) the claim to Rs 68.80 lakh as the Board under-insured the materials/ equipment by Rs 8.14 crore mainly due to the Board's failure to include customs duty of Rs 6.51 crore while declaring the sum insured as a part of the cost for the imported materials on the assumption of getting exemption from payment of customs duty. Though customs duty was paid (September 1998) the Board did not include the same as a part of the cost for which no responsibility was fixed. It was observed that the Board would have paid only Rs 5.48 lakh more, had the Board taken insurance coverage for the under-insured part of the materials/ equipment.

Thus due to under-insurance the Board suffered a loss of Rs 25 lakh (after deduction of Rs 5.48 lakh towards under-insurance premium from total loss of Rs 30.48 lakh). Besides, the claim of the Board of Rs 7.43 lakh towards testing and inspection charges of the damaged material/ equipment was not received from UIIC for which no reason was on record. The Board took up (December 2002) the matter with UIIC and the Insurance Regulatory and Development Authority for re-consideration of the claim. However, no response was received so far (September 2003).

The Government/ Board stated (February 2003) that due to financial constraints the insurance coverage of properties were made to the bare-minimum. The contention is not acceptable as the Board could have avoided the loss of Rs 25.00 lakh by way of paying additional premium of only Rs 5.48 lakh.

4.22 Extra expenditure

Inordinate delay in finalisation of the tender for procurement of conductors and placement of repeat order at higher rate resulted in an extra expenditure of Rs 20.65 lakh.

Between December 1999 and January 2000 the Board procured 13258 kilometres (Km) conductors of different specifications at the rate of Rs 9,705 to Rs 20,855 per Km against tender of September 1999. Further, during June to September 2000, 2,924 Kms conductors of same specifications were procured on the basis of repeat order basis. In July 2000 the Board invited another tender for procurement of 13,491 Km conductors of similar specifications. The Standing Tender Committee (STC)-I recommended (December 2000) placement of order on 14 firms at the rates ranging between Rs 7,646 and Rs 41,073 per Km. However, the recommendation was not accepted (January 2001) by the Board on the ground that it did not conform to the purchase policy of the State Government. But the exact nature of non-conformity with the policy was not spelt out. Though the price showed a downward trend, the Board did not go for re-tendering. Instead, the Board procured (February – June 2001) 9,831 Km conductors at a cost of Rs 11.80 crore on repeat order basis at the rate of Rs 9,705 to Rs 20,855 per Km against earlier tender of September 1999.

The Board again invited (March 2001) fresh tender for procurement of 25,830 Km conductors. The rates obtained (April 2001) against this tender was also much lower than the prices of repeat orders. It was observed (December 2002) in audit that the rates of conductor showed a downward trend even in July 2000, yet the Board did not take action for six months and continued to place repeat orders instead of calling for fresh tenders.

Thus, failure of the Board to place the orders at lower rates obtained against the tender of July 2000 resulted in a loss of Rs 20.05 lakh.

The Government stated (June 2003) that the tender of July 2000 could not be finalised due to 'price preference' to be allowed to state based parties following the instruction of the Government of West Bengal communicated in January 2001. The contention is not acceptable as the recommendations of the STC-I were received in December 2000 and orders could have been placed in December 2000 itself before receipt of any instruction regarding 'price preference'.

4.23 Extra expenditure

Despite having lower rates offered by outside state based parties the Board procured conductors at higher rates from state based parties at an extra expenditure of Rs 96.66 lakh.

Failure to avail lower rates for procurement of conductors resulted in an extra expenditure of Rs 96.66 lakh.

With a view to meeting the demand of rural electrification works, the Board invited tenders (May 2002) for procurement of 11,119 kilometers (Km) conductors of 'Weasel' and 'Squirrel' specifications. The rates of Rs 11,187 and Rs 7,669 per Km for both the specifications, submitted by Sashi Cables Limited (SCL), an outside state based party, were found to be the lowest. The rates of state based parties were found higher than the rates of SCL ranging between 6.71 and 10.96 *per cent*. The Standing Tender Committee–I (STC) of the Board recommended (October 2002) to offer the lowest rates of both the sizes to the outside state based parties. However, the Board approached the outside state based parties only in December 2002 when three parties agreed to supply at the lowest rates of SCL.

Meanwhile, the Board, ignoring the recommendation of STC-I, placed (November 2002) orders for purchasing 10,040 Km conductors, of which order for only 1,000 Km conductors was placed on SCL and the balance 9,040 Km on 11 state based parties at rates that were higher by Rs 644 to Rs 1,226 per Km. No order was placed on three outside state based parties which agreed to supply at the lowest rates.

Thus, due to purchase of conductors at higher rates from the state based parties the Board incurred an extra expenditure of Rs 96.66 lakh.

The Government/ Board stated (June 2003) that the remaining quantity of 'Weasel' and 'Squirrel' conductors would be purchased from three outside state based parties who accepted the L1 price as per their manufacturing capacity. The contention is not tenable as out of total requisite quantity of 11,119 Kms, the Board had already purchased 9,040 Kms at higher rates.

4.24 Redundant expenditure

In disregard to the suggestion of consultants the Board erected a 33 KV system at a cost of Rs 8.99 crore for un-interrupted supply of construction power for Purulia Pump Storage Project which proved unreliable and thereby the expenditure became redundant.

The detailed project report (DPR) for construction of Purulia pump storage project (PPSP), at Bagmundi, Purulia envisaged (March 1992) that the initial requirement of two mega watt (MW) of construction power would be supplied from the existing 33/11 KV sub-station at Bagmundi while the peak demand of five MW would be met by setting up a 33/11 KV sub-station at the project site with two 5 MVA transformers and drawing a separate 33 KV line from Purulia 132/33 KV sub-station. The DPR also provided for a diesel generating (DG) set of two MW capacity to meet the eventuality of power failure.

The representatives of the Board and consultants[θ] for the projects visited the project site and assessed (April 1996) the requirement of power during peak construction period at 11.2 MW (14 MVA) which could be met by drawing a 132 KV line from Purulia 132/33 KV sub-station and setting up a 132/33 KV sub-station at project site as interruptions in 132 KV sub-system were much lower than those in 33 KV system.

Ignoring the above assessment, the Board went ahead (December 1997 - April 1998) with implementation of the 33 KV supply system as per the DPR and commissioned (August 1999) the 33 KV sub-station at project site with two single circuit lines drawn from Purulia 132/ 33 KV sub-station at a cost of Rs 13.40 crore.

Unfeasible decision to erect 33 KV system resulted in redundant expenditure of Rs 8.99 crore.

Meanwhile, the Board decided (February 1999) to construct a parallel 132 KV line to ensure uninterrupted supply of power and accordingly approached Japan Bank of International Co-operation (JBIC), the funding agency of PPSP. JBIC, however, refused (January 1999) to concur the proposal as this would be duplication of efforts and expenditure. But the Board pursued the matter and JBIC ultimately agreed (December 1999) to the construction of 132 KV system provided that the Board would refund the cost of single circuit 33 KV lines (Rs 3.14 crore). The Board agreed to absorb Rs 3.14 crore on the ground that one 33 KV line would be utilised by the Distribution Wing of the Board. Accordingly the Board issued (November 2002) orders on Sun Steel Industries (Pvt.) Limited for supply, erection and commissioning of 132 KV line from Purulia to Bagmundi at a cost of Rs 6.91 crore . This work was in progress while the order for 132/ 33 KV sub-station was yet to be placed (September 2003).

It was observed that 33 KV system is used for distribution purpose only and for meeting the local demand. Also, the Board had a running 33/11 KV sub-station at Bagmundi and recently renovated 33 KV overhead line from

[θ] Electric Power Development Company, Japan and Water & Power Consultancy Services, New Delhi

Purulia to Bagmundi. Therefore, there was hardly any scope for utilisation of 33 KV line transferred to Distribution Wing of the Board. Consequently, expenditure of Rs 8.99 crore incurred on erection of 33 KV lines (Rs 7.26 crore) and 33 KV terminal arrangements (Rs 1.73 crore) at Purulia 132/ 33 KV sub-station became redundant due to unfeasible decision of the Board.

The Government/ Board stated (July 2003) that in future Purulia – PPSP 33 KV lines would wholly be utilised for strengthening the 33 KV network in the vicinity area of Purulia. The contention is not acceptable as the facts stated above did not justify the construction of 33 KV system for the area.

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